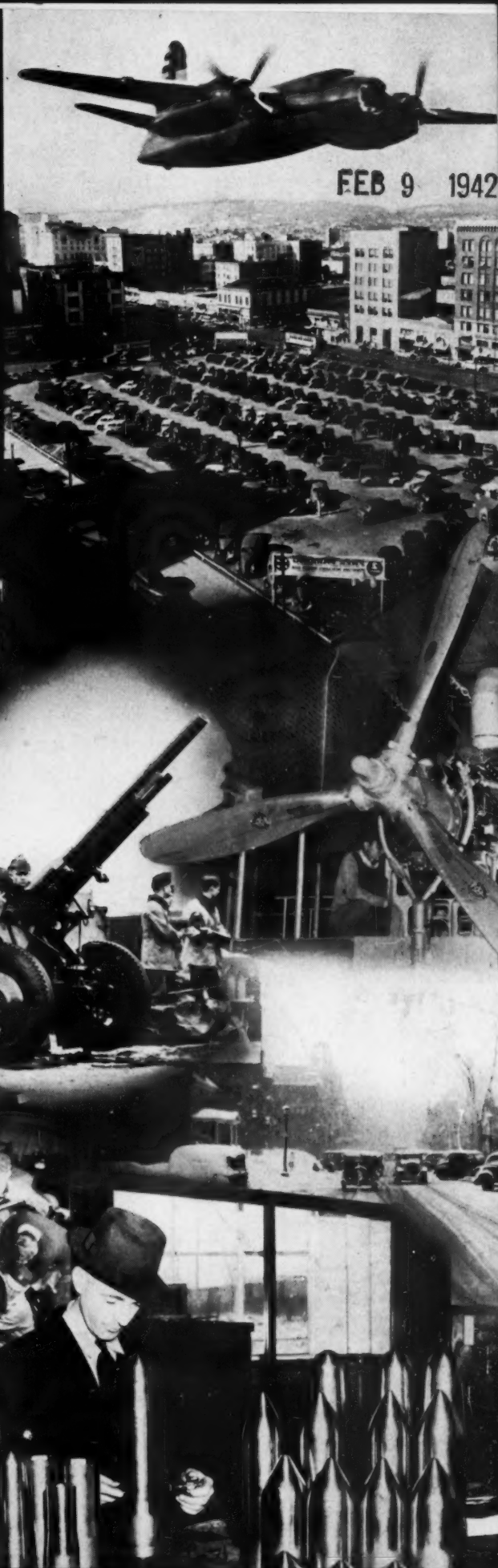


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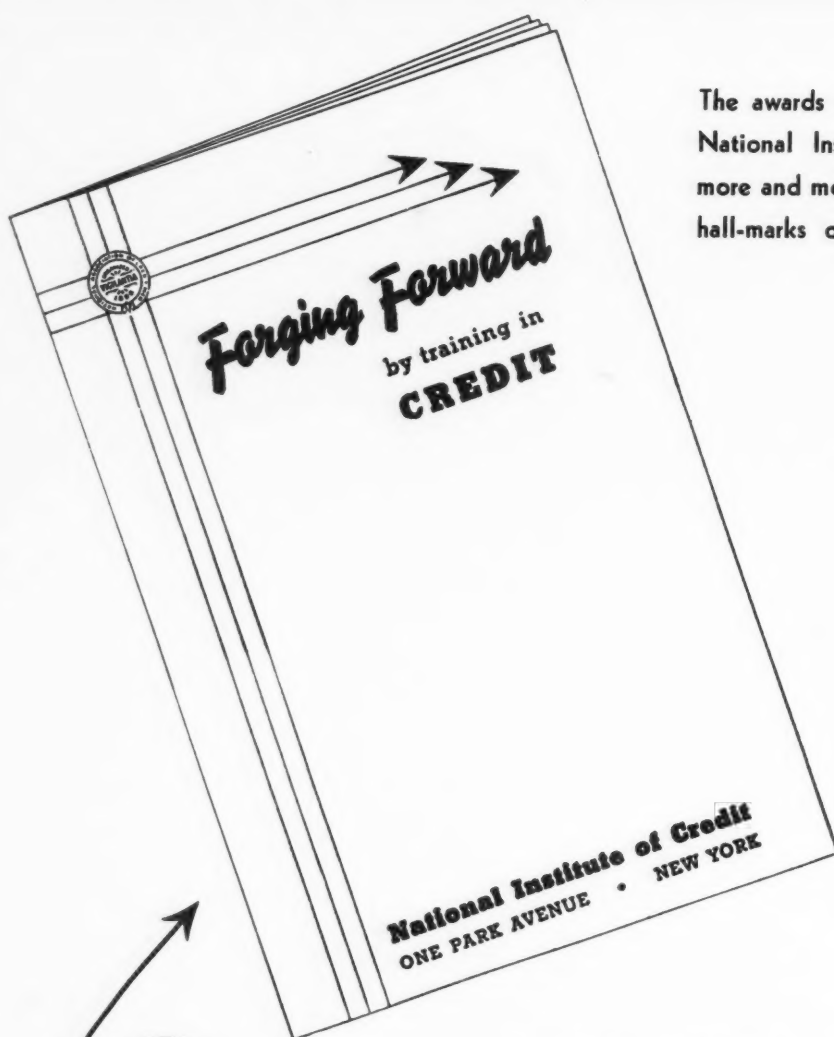
FEB. 1942



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Survey of Trends in Manufacturers' and Wholesalers' Activities

*Cover: Photo-montage showing defense activities of automobile industry.
Courtesy of the Automobile Manufacturers Association.*

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Richard G. Tobin
Editor and Manager

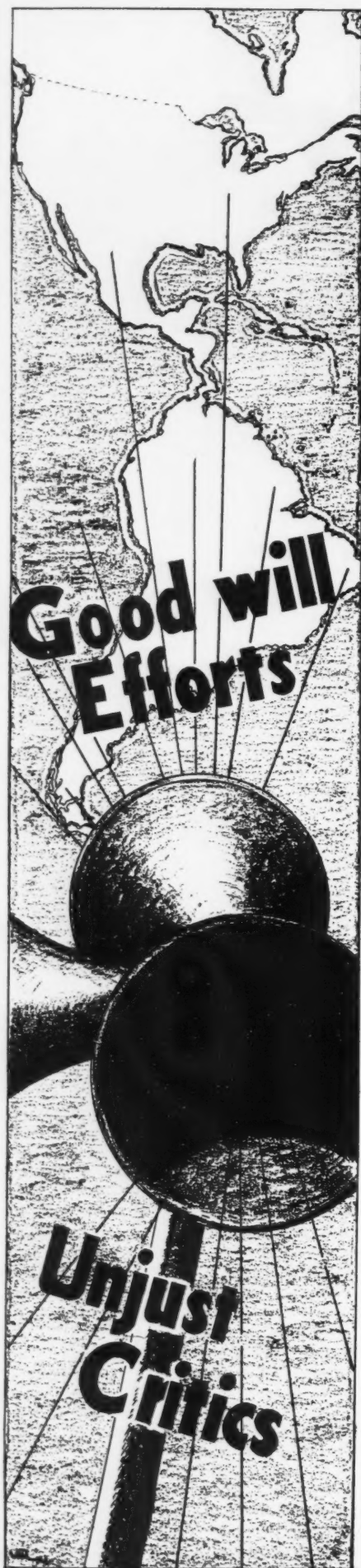
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Look at the Record!

From time to time there have appeared in the press statements insinuating that American manufacturing exporters have been refusing to grant normal credit terms to Latin-American buyers. It is even more unfortunate that some expressions of this type have been known to issue from quasi-official sources at Washington.

American manufacturing exporters are beginning to wonder about the motive behind these vaguely-phrased statements. There is, in fact, nothing at all vague about the record, which reveals that, barring justifiable exceptions, normal credit terms to Latin-American countries have been maintained all during this period. In certain lines there has had to be some change of policy because of special factors that cannot be listed in this brief space.

There is more than one reason why this record of normal credit, in the midst of a great world crisis, has prevailed.

First, the American manufacturing exporter has an acutely keen knowledge of world conditions. Well informed, he knows the evil consequences a fair-weather trade policy can have. Through labor and sacrifice over many years he has built up his export trade. He is aware that, once lost, it cannot be recaptured overnight. He realizes that, aside from the profits on export trade, he can constantly contribute to the growth of good will between his country and other nations.

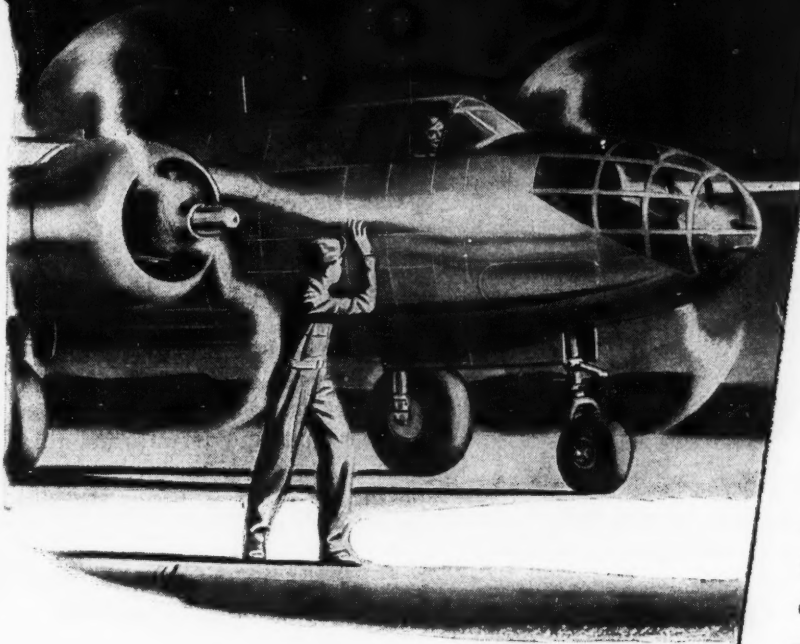
Second, contrary to the general belief, his credit experience has been highly satisfactory in his dealings with Latin-American countries. His losses have been almost infinitesimal. His business relationship has been unusually pleasant. Why, therefore, should he—after such a splendid experience—suddenly decided that he cannot do business on normal terms.

Survey after survey has been made by the Foreign Department of our organization, which represents the leading exporters. These surveys prove conclusively that ill-advised statements about American manufacturing exporters not doing business in Latin-America on normal credit terms are either the result of an ignorance of facts, of thoughtless expression without realization of its consequence, or of a deliberate propaganda attempt of a subversive nature.

The American manufacturing exporters have a record of which they can justly be proud. It is a record they desire to, and will, continue despite picayune harassment by people who either do not know what they are talking about or are deliberately mis-reading the facts with one eye on the headlines they thus hope to garner!

Henry H. Heimann
Executive Manager, N.A.C.M.

This little Pig went into DEFENSE

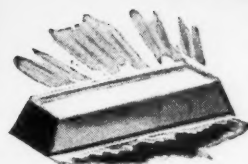


INSURANCE *Aids Industrial Teamwork*

To assure continuous flow of aluminum and other vital defense materials, factories, smelters and machinery must be carefully planned to minimize danger of loss through hazard. Insurance is on hand to replace when mishaps halt INDUSTRIAL TEAMWORK. More than that, it provides facilities to ferret out and plan against traps and hazards to clear the track ahead for full-speed production. Finally, Insurance reserve dollars invested in industry become bone and muscle to the ramparts of production.

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A BAR OF aluminum, called a "pig" in the trade, is a very essential material of defense. Where tough light metal is needed, aluminum and its alloys are used—in wire, motors, armor plate, castings and other products. A ton or more of aluminum may be necessary in the production of a single bombing plane.

Making one little pig of aluminum requires the coordination of many manufacturing and processing industries. Bauxite, the principal ingredient, must be ripped from the earth. Steel mills, refineries and power plants are some of the industries called in to push aluminum from its ingot and sheet metal stages into the wings of a plane. Only by INDUSTRIAL TEAMWORK can the little pig become precious metal and the materials of living and the implements of defense be made available in quantity. Insurance, the industry that protects other industries, acts to eliminate financial loss, so that least possible obstruction will confront the national defense effort.

When writing to advertisers please mention Credit & Financial Management

New System Speeds Up Credit Routine

Credit Cards Replace Ledger Sheets

When I first began studying the possibilities of installing our present Remington Rand Bookless Bookkeeping System, I frankly was somewhat skeptical as to whether or not it would work satisfactorily in our line of business. Like many credit executives, I always regarded ledger sheets as an essential part of our credit system and to do away with the ledger sheet seemed to me to be somewhat of a risk. I felt that duplicate invoices would become lost or misplaced. However, I began thinking back to the time when we changed from the old bound ledger bookkeeping system to the loose leaf ledger system. At that time, everybody was afraid that ledger sheets would become lost. As everybody knows that did not happen and the sheets did not become lost. The same is true in our present system. We just do not lose documents. Our present system was very carefully investigated before we finally decided to adopt it, and I am glad to say that any doubts I had about the system not working have proved to be unfounded, as our system is working out even more effectively than I anticipated.

Our problem involves the speedy handling of some 20,000 active accounts by our Home Office alone, and an additional 20,000 or so by our branches, each customer handling some if not all of our 250 items, including our exclusive specialties, such as Unguentine, Pepto Bismol, Amolin, Swav, etc.

Even if each account were an A-1 credit risk and discounted all bills, we still would have a large volume of detail work. We have the same need for alertness, good judgment and collection follow up as has every other credit department. Speed and accuracy are essential and our present system gives us both.

Credit Card For Each Account

IN our present system, we have eliminated the old form of ledger posting. Our equipment provides for

by **H. A. CUNNINGHAM**,
*Credit Manager, Norwich Pharmacal Co.,
Norwich, N. Y.*



panels housing visible pockets, each panel holding about 20 pockets. Each customer's account has its own pocket, and the name and address of each customer is visible. Each pocket contains a credit card, a sample of which appears in this article. This card you will note shows the customer's name, address, territory number, area number, and special information required for customer's billing requirements, shipping instructions, etc. This credit card also contains the Dun & Bradstreet rating, the limit placed on the account, the average time customer takes to pay bills, whether or not we have had any NG check experience, the date of last payment, and in fact all information needed to enable the credit clerk to either pass or hold up an order.

Our system is broken down into four units, each unit holding about 5,000 accounts. Four unit clerks operate these four units, and each clerk is responsible for the handling of the accounts in her particular unit. There is just one exception and that is the matter of dunning and collection ef-

forts. This work is handled by collection clerks. This means that each clerk has to familiarize herself with approximately 5,000 accounts, rather than try to remember details concerning 20,000 accounts.¹

Orders are received daily from salesmen with salesmen's reports. These reports not only list the orders submitted, but also any checks which the salesmen might personally procure. The daily report also provides columns for listing discount and transportation allowances. The unit clerk checks the order received against the customer's credit card. If the order is within the credit limit, and there are no arrears, the order is okayed for shipment. If there is a bill owing and the salesman procures a check to cover that bill, and the new order does not exceed the credit limit, the order is approved for shipment. If an account is in arrears, and a new order is received, the order is held for the attention of the credit manager or his assistant.

Signal Shows Oldest Item

AFTER the order is approved for shipment, it is billed, (we pre-bill before shipment) and a copy of the billing is sent to the shipping department for shipping. The remaining copies are held in file until shipment has been made, and the shipping department copy is returned to the office. After the shipment has been made, and the shipping copy returned to the office, the customer's copy of the invoice is mailed, and the shipping copy which indicates how and when the goods were shipped, weights, etc., goes to the unit clerk who files it in the customer's credit pocket. At the same time the bill is filed a signal at the top of the credit card is placed in position to indicate the month in which the merchandise is shipped. This signal always shows the oldest bill owing on the account. For instance, if there was a bill in the pocket indicating a shipment made in December, and a new order was shipped in January, when that new

		STATE		CITY		NAME				JUNE		JULY		AUG.		SEPT.		OCT.		NOV.		DEC.	
ADDRESS		AREA NO.		TERM. NO.		ACCOUNT OPENED																	
SPECIAL INFORMATION		19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19
CREDIT LIMIT																							
CREDIT RATING																							
ADV. TIME TO PAY																							
N.G. CHECKS																							
LAST PAYMENT																							
ORDER HOLDING										FOLLOW UP													
REMARKS																							

Orange Signal on Credit Cards Shows Date of Oldest Bill. Green Signal at Left Indicates Collection Efforts.

order came through for filing, the signal would still remain December, and remain December until the December bill has been paid, at which time the signal is moved up to January position or to indicate the next oldest bill in the pocket. If there is no balance open on the account, in other words, no bill or credit memo in the pocket, the signal appears in neutral position. This signal is always visible and very readily indicates to the unit clerk that that particular account is in balance.

Quick Collection Pick-Up

FOR dunning purposes, for aging accounts, for making statements and for taking trial balances, all that is necessary is for the unit or collection clerk to flip through the pockets stopping only at those accounts which have a signal extended, as all accounts with signals in neutral position have no bills or credit memos in the pockets. The collection clerk is guided by the signals indicating the month in which the goods are shipped. In other words, on our regular terms of sale, 2% 10 days, 30 days net, an October bill would be due in November and a November bill in December, etc. Therefore, when the col-

lection clerk is dunning in December, she doesn't interest herself with signals placed on December, but passes these up. She is only interested in invoices dating prior to December.

When an invoice is paid the bill is removed from the customer's pocket and placed in a paid file and stamped "Paid" with the date. The signal on the credit card is moved to the month indicating the next oldest bill. If the account is paid in full, the signal is placed in neutral position. The paid bills as they are removed from the customer's pocket are summarized for accounting purposes and as stated the invoices filed in a paid invoice pocket, which is provided for in a drawer, which is part of the same fireproof unit, housing credit cards.

Credit memos are indicated by signal the same way as invoices. In other words, if there is nothing open but a credit memo, the signal indicates the month in which the credit was issued. This, of course, is necessary for trial balance purposes.

I have been asked by several people, as to whether or not we have any errors. We naturally occasionally have an error as everyone else does, regardless of the system used, but we have fewer errors than we did

with the old ledger posting system. For example, if an invoice is filed in the wrong customer's pocket, it shows up immediately when making statements. In the old ledger system an incorrect posting would not show up until we received a kick-back from the customer, after he received a statement or collection letter.

Thorough Collection System

WITH regard to our dunning system the dunning clerk flips through the panels, and stops only at those cards which indicate an account past 30 days old. The dunning clerk goes through the credit cards about every 10 days or two weeks. The first collection effort is made about ten days after the bill is due net. We give a ten day grace period to get the check in to us. If the check is not received within ten days after the bill is due net, the first reminder sent to the customer is a Colvelope with which everyone is familiar. This Colvelope consists of a business reply envelope and the following multigraphed letter.

"We would like this note of friendliness to do two things for us. First, to thank you for your check which we are sure you will be glad to send by the next mail.



Compact, Fireproof, Efficient.

Second, to let you know we are appreciative of your interest in Norwich label products, and to thank you for your continued support.

To insure proper credit, tear off and return this slip with your remittance in the return envelope attached."

In sending out this Colvelope all that is necessary is to type the name and address of the customer on the envelope. No attempt is made to indicate amounts, and this makes it possible to mail the Colvelope at reduced postage. This gentle reminder has proved to be very successful with us. Approximately ten days after the Colvelope is mailed, and in which time the dunning clerk again gets back to that particular account, the first of a series of five form letters is sent in the event that a check has not been received in the meantime. These five letters are scheduled two weeks apart. They are multigraphed, and *carefully* filled in with the customers name and address, and amount of the past due account. It is of extreme importance that the dunning clerk matches the type of the letter with the ribbon on the typewriter, so that the letter will be as near to a personally typed letter as we can get.

Collection Record on Invoice

IN the sample of our invoice, which appears in this article, you will notice five numbered blocks at the top of the invoice. These correspond with the number of the collection letters which are sent. In other words, as a collection letter is mailed, the date of

the letter is entered in the corresponding block indicating the number of the form letter used. That indicates the date and what form was sent to the customer. No copies are made of form letters as they are not necessary inasmuch as the block at the top of the invoice indicates the letter which was sent. In the regular follow up of the account five letters are mailed if the account is not paid in the meantime, and if these five letters do not produce results, the dunning clerk refers the account to the collection clerk for special correspondence. When this occurs a green signal is placed at the top of the credit card indicating that the account is on special collection correspondence so the dunning clerk passes up this account when she gets around to it again. This account remains on special correspondence until it is paid and this special correspondence is handled in the regular follow up tickler file, the credit card being marked with the date the account again comes up for follow up. When the account is paid, the follow up is erased from the credit card, the correspondence destroyed, the green signal placed back in neutral position, and in the event a new order is shipped, the regular procedure starts over again, and the dunning clerk automatically picks up the bill when it becomes due. We, of course, do not keep in file all collection correspondence after bills are paid. I cannot see that such letters have any value to anyone. When we start a collection file, we have one purpose in mind, and that is to collect an account, and that being accomplished, the corre-

spondence has no further use and our interest in that particular transaction is ended.

Friendly Form Letters

WE use unusual care in selecting form letters. They are carefully planned and constructed to suit our own business. Each letter contains some reference to our products. Very rarely do we reorder a form letter. When a supply of the multi-graphed form is exhausted, a new form letter is constructed so there will not be any chance of a customer receiving the same letter on two different occasions. Occasionally if we find that a certain letter has proved unusually successful, we may keep it in our collection of forms. Ordinarily, however, a new personally dictated form letter is set up when a supply of one form becomes exhausted. In this way we try to give our letters an informality and friendliness which have proved effective for us. Number two in our series of form letters which we are using at the present time follows and this letter is more or less typical of the type of letter used.

"No doubt it was your intention to send your check for your past due account when you received our last letter requesting payment.

As your check has not been received up to this writing we assume that for some reason you were delayed in sending it.

This past due balance is again brought to your attention with the thought that you will take care of this matter now.

And by the way, how is your stock of Pepto-Bismol, Amolin, Unguentine, and Swav? You no doubt are in need of some Norwich items now, so when sending your check send along your order at the same time, and we will do the necessary. We are depending on hearing from you within the next ten days.

Thank you."

Unit Clerks Responsible

TO get back to our Accounts Receivable Bookless Bookkeeping system, as I have mentioned before, the unit clerks have full responsibility for the accounts which are in her unit. Credit limits are established and the unit clerk is given reasonable leeway. In other words, the unit clerk can pass an order amounting to 10% above the credit limit arranged

Orders received exceeding the limit placed on the account are subjected to investigation in the usual way, and it is determined by the Credit Manager whether or not the credit limit on the account will be increased, and where it is increased, the credit card is marked accordingly.

ALTHOUGH our terms are 2% 10 days 30 days net, it is our policy to ship a customer up to the credit limit within the 90 day period. In other words, an account with \$100 limit could be shipped \$40 in October \$40 in November and \$20 more say in December, but once the oldest bill is 90 days old the account becomes frozen. Regardless of how good the customer's credit rating, a payment for at least the amount of the new order must be received before the new order is shipped. Checks received by mail are delivered to the unit clerk handling the particular account. Discounts which are in order and transportation which is in order are allowed at the same time the unit clerk checks the payment. The payment is recorded on a remittance slip for accounting purposes and a copy of the remittance slip sent direct to the salesman so that he is aware at all times of payments received from his customers. Any unearned discount deducted is immediately referred to the collection department, and in most cases the check is returned to the customer. If the amount involved is small we sometimes accept the check calling the customer's attention to the cash discount deducted.

date being indicated on the credit card. When payment is received or when the order can be released it is marked OK on the credit card and the follow up discontinued.

At the upper right hand corner of our invoice you will notice the word "Payments" written vertically. In this space the unit clerk lists the dates and amounts of the payments received on account, and which do not pay the bill in full. These payments are deducted from the previous balance shown on the bill and the new balance is filled in in pencil. There is room for five payments which we feel is sufficient to take care of the on account payer.

IN sending statements, we use the stagger system. In other words, we do not send out statements to every customer on the first of each month. We have a clerk making out statements every day, and each customer at some time during the month receives a statement. Our statements do not carry balances forward but show individual items. Statements are mailed to a customer until the account is 90 days old. One copy is mailed to the customer and one to the salesman covering the account. However, after the account is 90 days old and the customer has already re-

ceived two or three statements, providing there are no changes on the account, in other words, no payments have been made, no additional invoices have been put through and no credits have been issued, we discontinue mailing a copy of the statement to the customer, although the salesman still continues to get his copy.

The reason for this is that by this time, the account is already on collection follow-up and a statement would be more or less a duplication. This, of course, results in a saving of considerable postage.

Our method of operation provides that the salesman contact every retail drug store in the country regardless of the size of the store or the size of the town. Our merchandise is sold direct to the retailer. We, of course, have wholesale accounts but we do not depend on those for our distribution. We do not limit ourselves to gilt edge accounts, as the slow but sure payer very often is a good profitable account. However, by the same token, we do not sell every Tom, Dick and Harry. Every retail drug store is a potential customer unless the credit of the store is unsatisfactory.

Our credit policy does not permit shipment of orders on the strength of post-dated checks. In other words,
(Continued on page 39)

**Collection Letters and Payments on Account Are
Noted On This Shipping Order.**

Ratios—What They Tell Us

They Give Definite Warnings When to Beware

CF Problems of the credit executive have multiplied greatly during the past twelve to eighteen months, due principally to the enormous volume of business resulting from the Defense Program. This condition has caused some to feel that all methods of measuring capital and capacity, on which we have leaned heavily in the past, are now worthless.

It is true that after analyzing a statement, we have to look behind the figures and make more generous allowances than heretofore. But, generally speaking, credit men continue to feel that one of the most important sources of information is the balance sheet and operating statement of the credit seeker. To silhouette the relation of the component parts of the statement to each other, it has become rather general practice to show this relationship by means of percentages or ratios, and it is the purpose of this article to discuss these ratios.

Many ratios can be developed which give no tangible assistance. It therefore seems logical to determine the fewest ratios necessary to bring out the weaknesses of the statement so that they are readily discernible. In order to be specific, this article is centered around the type of analysis used by the Westinghouse Electric & Manufacturing Company.

Dealers, Jobbers and Manufacturers

NOT all types of business can be subjected to the same type of analysis. The analysis discussed herein is not applicable to public utilities or railroads, nor is it altogether satisfactory in the case of contractors. It is, however, useful in connection with dealers, jobbers, and manufacturers.

Balance Sheets are set up in many different ways, but practically all items included in any balance sheet

By F. E. LUNT
Staff Assistant, Treasury Department
Westinghouse Electric & Mfg. Co.

may be properly classified under one of the following captions:

Assets

Cash & Marketable Securities
Notes and Accounts Receivable
Inventories
Physical Fixed Assets
Other Tangible Assets
Intangible Assets

Liabilities

Current Liabilities
Long Term Debt
Intangible Liabilities
Preferred Stock
Common Stock
Surplus

It will be found advisable to prepare a list of items occurring in balance sheets and indicate which of the above captions is applicable, in the interest of uniformity and to permit of accurate comparison; otherwise, such items as "Cash Surrender Value of Life Insurance," "Work in Process," "Advances Against Contracts," "Sinking Fund," etc., may be classified one way in analyzing one statement and differently in another.

Let us take a simple statement in the form published, mark the various items by number to identify them as to classification, and note the improvement for analysis purposes, as shown in Exhibit "A."

Consideration of Ratios

THE statement rearranged in this manner throws into relief the liquid assets, current assets, working capital, fixed position, and tangible net worth. However, an appraisal of a statement does not lie in the size of the figures, but rather in the relationship of certain items to others in the statement. This relationship is

best shown by means of ratios. Taking the above rearranged statement, let us consider the ratios that seem of prime importance:

	1934 Ratio 12-31
CURRENT RATIOS	
Liquid Assets to Current Liabilities	% 296
Current Assets to Current Liabilities	% 687
Average Age Receivables	Days 47
Average Age Inventories	Days 72
Average Age Conversion	Days 119
Average Age Current Liabilities	Days 18
Average Age Working Capital in Use	Days 101
Inventory to Working Capital (75%)	% 67
Current Liabilities to Tangible Net Worth (75%)	% 12
CAPITAL RATIOS	
Total Debt to Tangible Net Worth (95%)	% 26
Total Fixed Assets to Tangible Net Worth (75%)	% 42
Long-term Debt to Working Capital (100%)	% 19
OPERATING RATIOS	
Sales Volume—Actual (000 Omitted)	\$ 1,048
Sales Volume—Actual Safety Maximum (000 Omitted)	\$ 1,004
Net Income to Tangible Net Worth	% 42
Net Income to Working Capital	% 58
Net Income to Sales Billed	% 17

Of the current ratios, four are indicated by "percentages," but five are shown in "days" to indicate the turnover period of the different items. Of the operating ratios, the first three are in thousands of dollars, whereas, percentages are used to reflect net income.

The liquid ratio needs no explanation here. A ratio of 100% (one dollar of liquid assets for each dollar of current liabilities) is generally considered the minimum of safety. Likewise, the ratio of current assets to current liabilities is familiar; a ratio of 200% is usually the accepted minimum of safety. However, in connection with the liquid ratio, remember that today cash and rapidly maturing receivables are of more

than usual importance, in view of the heavy income taxes to be met. Poor liquid condition will unquestionably be the cause of many complications, with resultant losses over the next few years.

The next five ratios are designed to show how efficiently the company uses the funds available. To obtain the average age of receivables, divide receivables by sales and multiply by 365. In similar manner, to obtain the average age of inventory, divide inventory by sales and multiply by 365. The sum of the average age of receivables and inventory represents the average age of conversion; that is, the time necessary to complete the cycle of turning cash into inventory, to receivables, and back into cash.

Average age of current liabilities is obtained by dividing the current liability figure by sales and multiplying by 365. By subtracting the resulting number of days from the average age of conversion, the average age of working capital in use is obtained.

Having worked out the average age ratios, it is observed that as of December 31, 1934, the age of the receivables was 47 days; terms of sale and collection efficiency are reflected in this figure. The average age of inventory is shown to be 72 days; this result is the number of days required to turn its inventory. The average age of current liabilities shows the company requires 18 days to meet its current obligations. The average age of working capital of 101 days is useful in determining the efficiency of the use of working capital. This is a particularly important ratio; too slow a turnover is indicative of inefficiency in operations. Too rapid a turnover is frequently

more dangerous, in that it usually occurs as a result of attempting to handle too great a sales volume with the working capital available.

Inventory to Working Capital

THE ratio of inventory to working capital is another important ratio. Roy A. Foulke, in his "Behind the Scenes of Business," has stated that a company having a net worth of less than \$250,000 cannot safely invest more than 67% of its working capital in inventory, while a firm having a net worth of \$250,000 or more can safely invest 75% of its working capital in inventory. Considering business as a whole, our experience has tended to verify this statement.

In connection with the next ratio,

that of current liabilities to tangible net worth, the authority mentioned above has likewise set a safety maximum of 67% and 75%, depending on the size of the company. In the statement under consideration, the ratio of 12% is decidedly favorable in that a comparatively small part of the company's net worth is required to clear the current indebtedness. This is the last of the ratios having relation to the current operations.

The next three ratios outline primarily the position of the company with regard to fixed assets and funded debt. The first ratio listed in this group, total debt to tangible net worth, is of prime importance. Obviously, the ratio must be less than 100%; how much less is a matter of

EXHIBIT 'A'

Statement Submitted as of 12/31-34

ASSETS		LIABILITIES	
1 Cash	\$21,020.32	Notes Payable	
2 Notes Receivable	46,227.27	Accounts Payable	17,488.46
2 Accounts Receivable (Less Reserve)	88,664.92	Accruals	3,924.58
4 Merchandise	205,703.84	Reserve for Taxes	31,253.61
Total Current Assets	361,616.35	6 Total Current Liabilities	52,666.65
8 Fixed Assets (Less Depreciation)	178,382.36	11 Mortgage	59,515.04
9 Cash Value Life Insurance	1,910.70	16 Common Stock	258,000.00
14 Prepaid and Deferred	51,601.91	18 Surplus	250,717.41
14 Intangibles	19,590.00		
14 Other Assets	7,797.78		
TOTAL ASSETS	\$620,899.10	TOTAL LIABILITIES	\$620,899.10

Statement Rearranged and Classified

	12-31-34
1 Cash and Marketable Securities	\$21,021
2 Notes and Accounts Receivable (Less Reserve)	134,892
3 Liquid Assets	155,913
4 Inventories—(Less Reserve)	205,704
5 Current Assets	361,617
6 Less Current Liabilities	52,667
7 Working Capital	308,950
8 Physical Fixed Assets	178,381
9 Investment and Other Tangible Fixed Assets	1,911
10 Total Fixed Assets	180,292
11 Less Long-term Debt	59,515
12 Net Equity in Fixed Assets	120,777
13 Tangible Net Worth	429,727
14 Intangible Assets—Net	78,990
15 Net Worth per Balance Sheet	508,717
Represented by—	
16 Common Stock	258,000
17 Preferred Stock	
18 Surplus	250,717
(To round out our study, we show Total Debt, Sales and Net Income)	
Total Debt	112,182
Sales Billed	1,048,300
Net Income	180,799

opinion. We might arbitrarily set 95% as the maximum percentage permissible without the firm being on the brink of disaster. The ratio of 26% in the statement under consideration reveals no stress in this important phase.

Fixed Assets to Net Worth

THE ratio of total fixed assets (the sum of absolute fixed assets and investments and other fixed assets) to tangible net worth of 42% is favorable. On the same basis mentioned heretofore, experience in analyzing business as a whole indicates that not more than 75% of the tangible net worth should be invested in fixed assets.

The 19% ratio of long-term debt to working capital is favorable, since the limit of this ratio has been placed at 100%. This limit is based on the reasoning that when this position is exceeded, the business must be currently operated on borrowed capital, and definite interest and amortization charges resulting therefrom must be paid out of expected profits. Fluctuating sales and margins of profit made such method of operation decidedly precarious.

Next in our analysis is the group of operating ratios, designed to attempt to determine the largest volume of sales that can *safely* be handled with the existing financial position. One thing should be kept in mind in considering this phase of the analysis,—in placing a ceiling on the volume of business that can be done on the working capital available, it is not claimed that it is not possible to do a greater volume than that shown in the "Actual Safety Maximum." Not only can a firm exceed this safety maximum, but it is done frequently. However, it is not sound business practice, and under anything like normal business conditions, the firm whose statements show this condition frequently is vulnerable, should its expectations as to conditions, volume, profit, etc., not be realized.

Working Capital Formula

THE maximum safety volume of sales, or ceiling, is based on the lower of two calculations; one based on working capital and the other on inventory. The formula for the working capital basis is as follows: $365 \div \text{Average Age of Working Capital} \times 90\% \text{ of Working Capital}$. Actually applying this formula to the state-

ment under consideration; the figures are $365 \div 101$ (3.61 turnovers per year) $\times \$278,055 = \$1,003,778$ which we shall consider \$1,004 by leaving off the last three figures. The question that may arise in considering this formula is, "Why 90% of the working capital?" A firm, of course, cannot invest all its working capital in inventory and receivables without retaining any cash on hand, and it is considered that 10% of the working capital should at all times be in the form of cash.

As stated above, we also take into account the maximum sales volume possible, based on inventory. The formula for this computation is $365 \div \text{Average Age of Inventories} \times 75\% \text{ of Working Capital}$. Using the foregoing 1934 analysis as an example, the computation would be $365 \div 72$ (5 turnovers per year) $\times \$231,713 = \$1,158,565$ which we consider as \$1,159. We use 75% of the working capital for the reason outlined in considering the ratio of inventory to working capital; that is, a company having a net worth of \$250,000 or more can safely invest up to 75% of its working capital in inventory.

When Turnover Is Too Fast

WE now have two figures for the maximum volume of sales, \$1,004,000 and \$1,159,000. We use the smaller amount, because if the working capital volume permitting the higher sales figure is used, the turnover could be so rapid that more than 75% of the working capital could be invested in inventories and still permit the company to meet current obligations as heretofore. This is an unsound practice. On the other hand, should the inventory volume permitting the higher sales figure be used, the working capital turnover would be so sluggish that the total working capital, excepting the 10% retained in cash, would be absorbed in operations before the 75% inventory investment was reached. We, therefore, use the figure of \$1,004,000 as the ceiling of sales. Comparing this ceiling with the actual sales, we find that in 1934, this company was doing about as large a volume of business as its working capital could stand.

Reviewing the analysis of the 1934 statement, we find the liquid and current ratios adequate; the turnover of receivables, inventories, and current liabilities satisfactory; and the ratios

of inventory to working capital and current liabilities to tangible net worth within proper proportions. The capital ratios are well within the safety factors, the sales volume within the ceiling established, and the net income percentages more than satisfactory. Thus, during 1935, we might feel quite safe in accepting reasonably substantial credit extensions.

However, lest we be lulled into a false sense of security, we should not be satisfied with an analysis of one year's operations. Let us study the company over a five year period and see what trend is indicated. (See Exhibit "B.")

Looking at the 5 Year Record

WE observe that in 1935, the inventory represents 76% of the working capital and sales are slightly in excess of the safety maximum. In 1936, the liquid and current positions, while still satisfactory, are not much above the usually accepted ratios of 100% and 200%, respectively; the working capital in use has a greatly increased tempo (being turned over more than twice as fast as in the two previous years), nearly all the working capital is represented by inventory, and the sales volume is about 20% in excess of the safety maximum.

At this point, the trend is such that the wise credit man is watching his account carefully. Apparently the company is doing more business than the working capital justifies, and it is evident that to keep the company properly balanced, increased working capital or reduced sales figure is required. The capital ratios all show an unfavorable increase, which should not be overlooked. The long-term debt has increased \$90,000; the physical fixed assets show an increase of \$212,000. (The current figures account for the difference between the increase in fixed assets and long-term debt.) The trend to this point is not favorable, but has not yet become alarming.

The 1937 statement shows that the trend indicated previously was not checked, with the result that the firm no longer belongs to those who owned it in 1934, but the greatest equity is in the hands of the creditors.

Danger Signals Appear

LIQUID and current ratios are much too low, payables are on an 85-day basis, working capital is

being turned over at a feverish pace, and—we find inventory is more than two and one-half times the working capital! The total debt to tangible net worth ratio shows that the creditors' interest in the business is 7% greater than that of the stockholders. The significance of this situation is known to all credit men. Comparison of the ratio of total fixed assets to tangible net worth for 1937 against the same ratio for 1936 shows that fixed assets have been greatly increased, partially by an increase in long-term debt and partially at the expense of working capital. The ratio of long-term debt to working capital is, of course, beyond the bounds of reason. Now let us look at the operating ratios; gradually, over the first three years analyzed, the variance between the actual sales and the safety maximum increased, and in 1937, the actual sales were more than three

times the safety maximum. In 1938, an unfavorable year in business generally, the trend continued downward. Observe that suppliers are now paid on a five months basis at best, that creditors now own a still greater portion of the company and further note actual sales compared to the sales safety maximum. The ratios for the five years graphically tell a story that is well known to credit men, but seemingly is so little recognized by the management of too many companies. Here we have pictured an actual case of an ex-

panding business that came to a disastrous point because the management's conception of expansion stopped at additional plant facilities for production of greater volume. As plainly indicated by the Sales Volume ratios, that greater volume could not safely be produced on the existing working capital, and the expansion program should have included the furnishing of additional capital. Not only was such additional financing neglected, but to make a bad matter worse, part of the existing working capital was used to increase the fixed assets!

Seeking Industry Ratios
HAVING considered the analysis on a trend basis, there is another study that should be made, a study of the industry. Comparison of industry ratios with a specific risk is enlightening. An industry study, of course, consists of working out a number of statements of concerns which are in the same business, deriving therefrom figures that may fairly represent "ideal" ratios for that particular industry. Many theories might be advanced in connection with industry studies. In the interest of keeping this article (*Cont'd on P. 28*)

EXHIBIT 'B'

	12-31-34	12-31-35	12-31-36	12-31-37	12-31-38
Cash and Marketable Securities	21,021	15,846	94,790	9,591	1,938
Notes and Accts. Rec. (Less Res.)	134,892	133,529	151,749	253,977	136,680
Liquid Assets	155,913	149,375	246,539	263,568	138,618
Inventories—(Less Reserves)	205,704	286,411	353,785	524,740	392,248
Current Assets	361,617	435,786	600,324	788,308	530,866
Less Current Liabilities	52,667	57,906	235,575	586,047	434,889
Working Capital	308,950	377,880	364,749	202,261	95,977
Physical Fixed Assets	178,381	213,838	425,728	712,915	648,268
Invest. and Other Tang. Fixed Assets	1,911	43,171	38,139	242,699	374,588
Total Fixed Assets	180,292	257,009	463,867	955,614	1,022,856
Less Long-term Debt	59,515	49,844	137,278	313,500	408,150
Net Equity in Fixed Assets	120,777	207,165	326,589	642,114	614,706
Tangible Net Worth	429,727	585,045	691,338	844,375	710,683
Intangible Assets—Net	78,990	127,720	129,072	8,394	9,203
Net Worth per Balance Sheet	508,717	712,765	820,410	852,769	719,886
Represented by—					
Common Stock	258,000	258,000	258,000	258,000	258,000
Preferred Stock					
Surplus	250,717	454,765	562,410	594,769	461,886
Total Debt	112,182	107,750	372,853	899,547	843,039
Sales Billed	1,048,300	1,330,968	2,293,005	2,507,461	1,060,855
Net Income	180,799	156,775	344,892	178,848	*129,658

* Red Figure.

RATIOS		1934	1935	1936	1937	1938
	Ratio	12-31	12-31	12-31	12-31	12-31
CURRENT RATIOS						
Liquid Assets to Current Liabilities	%	296	258	104	[45]	[32]
Current Assets to Current Liabilities	%	687	755	257	[134]	[122]
Average Age Receivables	Days	47	37	24	37	47
Average Age Inventories	Days	72	79	56	76	[135]
Average Age Conversion	Days	119	116	80	113	[182]
Average Age Current Liabilities	Days	18	16	37	[85]	[150]
Average Age Working Capital in Use	Days	101	100	43	28	32
Inventory to Working Capital	(75%) %	67	76	[97]	[260]	[410]
Current Liab. to Tangible Net Worth	(75%) %	12	10	35	70	61
CAPITAL RATIOS						
Total Debt to Tangible Net Worth	(95%) %	26	18	54	[107]	[120]
Total Fixed Assets to Tangible Net Worth	(75%) %	42	44	67	[113]	[144]
Long-Term Debt to Working Capital	(100%) %	19	13	38	[155]	[425]
OPERATING RATIOS						
Sales Volume—Actual	(000 Omitted) \$	1,048	1,330	[2,293]	[2,507]	[1,060]
Sales Volume—Actual Safety Maximum (000 Omitted)	\$	1,009	1,241	1,783	728	193
Net Income to Tangible Net Worth	%	42	27	50	21	[18]*
Net Income to Working Capital	%	58	42	95	87	[135]*
Net Income to Sales Billed	%	17	12	15	7	[12]*

NOTE: Ratios indicating weakness or vulnerability are bracketed to focus attention.

Commercial Credit Analysis—Part X

The Further Analysis of Inventories

OF To reflect on the state of balance that exists in the finished goods inventories of all types of business enterprise, it is significant to compute a turnover of merchandise by departments.

The cost of goods sold in each department for the year as disclosed by a departmental breakdown of the profit and loss statement should be divided by the average month-end inventories in each department to determine an annual departmental rate of turnover. The ratio of the goods on hand in each department at the close of the year, as disclosed by a departmental breakdown of inventories, to the cost of goods sold in the department for the year in terms of days indicates the extent to which that particular class of goods will supply its normal sales requirements during the succeeding period.

Manifestly, this permits a closer analysis to be made of the balance and condition of total inventories and enables the analyst to spot unsound accumulations of merchandise types which might well go unnoticed in a consideration of aggregate turnover alone. For this reason, departmental breakdowns of inventories as well as of operating details should always be insisted upon wherever they are practicable.

Miscellaneous Considerations

IN rare instances it may be feasible to obtain a breakdown of year-end inventories by products and an analysis of sales and cost of sales by products either in dollars or quantities or both. It is then possible to consider the relative heaviness of each product in the inventory total by relating it to the cost of the product or the quantity of the product sold during the course of the year. Of course, to obtain a dependable estimate of product turnover, month-end inventories must be available to compute an annual average for each product.

by EDWARD F. GEE

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There are a number of miscellaneous points with respect to the consideration of inventories in the balance sheet with which we shall treat briefly and without regard for order or relative importance.

If dealers, manufacturers, or producers are concerned with commodities which are dealt in on organized commodity exchanges, it is possible for them, through the hedging facilities of the exchange, to take out a form of insurance against the risk of unfavorable fluctuations in commodity prices. Hedging is effected by offsetting a transaction in the spot or actual market by a corresponding transaction of the opposite kind on an exchange. It is a conservative business practice which enables the business employing its use to eliminate the possibility of speculative gains or losses from commodity price movements and to stabilize its operations on the basis of an assured merchandising profit.¹

In viewing the balance sheet of a business in which hedging transactions are possible, it is obviously important to determine the extent to which the value of the inventories has been insured through the use of hedging facilities. The management's assurances as to its established policies in this respect should be one of the primary considerations of the credit analyst.

There are a good many types of wholesale and manufacturing enterprises which purchase or manufacture to varying extents against firm purchase orders. Leaf tobacco dealers, for instance, peanut processors, manufacturers of blankets, garments, or other textile products, and so on,

may all have accumulated inventories in their balance sheets to supply definite purchase commitments on hand. In such instances, an appraisal of the relative heaviness of the inventory asset should be tempered by a consideration of the size of the orders on hand and of the quality and dependability of these purchase commitments.

Other Important Factors

UNLESS adequate recognition is given to merchandise or materials in transit on the date of the balance sheet, the inventory position of the purchasing business will be understated and all of its liabilities will not be shown in the statement. A liability for the purchase price of the goods is created at the time the title passes to the purchaser and delivery is not essential to the passing of title.² Therefore the goods should appear in the inventories of the purchasing business and the liability therefor should be shown in its balance sheet from the moment that title passes regardless of the date of delivery.

Incidentally, in this connection, it should be pointed out that shipping terms are important. If goods are shipped f.o.b. destination (that is, "free on board" to the point of destination) the title does not pass until the goods reach their destination; but where the shipment is f.o.b. shipping point, title passes to the purchaser when the goods are put in the hands of the common carrier and his ownership and liability date from that moment.³

The extent of the purchase commitments existing at the statement date (for merchandise and materials the title to which has not passed) is also of interest to the analyst in viewing the inventory total. Abnormally large commitments in relation to in-

¹ Keeler, Floyd Y., "Hedging in a Future Market Against Inventory and How it Should Interest the Average Banker," in the *Robert Morris Associates Bulletin*, May, 1938, p. 316.

² Conyngton and Bergh, "Business Law" (The Ronald Press Company, New York, 1936), p. 146.
³ *Ibid.*, p. 145.

ventories and manufacturing and sales needs suggest that inventories may have been forced down for window-dressing purposes and have other implications upon which we have already touched.

Since the title to merchandise on consignment remains with the consignor until the goods have been sold,⁴ they should continue a part of the consignor's inventory total until sale has been effected. By the same token, consigned merchandise in possession of the consignee must be meticulously excluded from the consignee's inventory asset. It is particularly important to give attention to the latter point in viewing the unverified inventories of small businesses where combinations of cupidity and ignorance may conceivably result in a violation of this principle.

The reports of reputable accountants should always show the existence of hypothecated merchandise but the balance sheets submitted by business managements may not invariably be relied on to disclose this important information. The possibility that parts of the inventories may be pledged for the protection of specific creditors is a fundamental consideration in the evaluation of financial strength.

Perpetual Inventory Records

WHERE it is at all practicable to do so, the analyst should recommend the installation of perpetual inventory records. More intelligent control can then be exercised over inventory quantities by business management, a system of internal check is provided, an improved understanding of operating costs is made possible, and daily, weekly, or monthly balance sheets and operating statements can be prepared, permitting a high degree of executive supervision. Management benefits directly through an enhanced knowledge of its own operations and indirectly through the possibility of fuller cooperation from its banks based on the availability of more comprehensive financial data.

Perpetual inventories are not always appropriate for mercantile concerns,⁵ especially where a multitude of small products are involved, but they are ordinarily adaptable for manufacturers and are an essential part of a manufacturing cost system.

It should be thoroughly under-

stood, however, that a perpetual inventory system does not obviate the necessity of a periodic physical inventory. The maintenance of perpetual records permits the taking of physical inventories in piecemeal fashion at a time when the quantities of each class of materials or product are at their lowest point but the need for regular and careful physical verification is just as essential as ever because of the many inaccuracies that tend to creep into the book figures and because of the adjustments necessary for loss, theft, shrinkage, and so on.

Insurance

THE existence of insurance in force on the inventory asset sufficient to assure the continued availability of its asset value against all normal insurable hazards is a matter of vital importance to the credit analyst. Destruction by fire is usually the most likely hazard but there is also the possibility of loss of value through sprinkler damage, flood damage, theft, or a variety of other causes. The nature of the inventory should be considered along with its location and other surrounding conditions and the adequacy of the scope of insurance protection against total or partial loss through all reasonable hazards should be judged in the light of these factors. Special types of inventories may require special types of insurance protection.

In relating the face amount of the insurance carried to the balance sheet valuation of inventories, the significance of co-insurance clauses should be borne in mind. If the insurance carried does not bear a ratio to the value of the asset equal to that stipulated in the co-insurance clause, then the recovery available in the event of a partial loss is limited to a proportionately smaller amount than would otherwise be obtainable.

Not only should the adequacy of the insurance coverage at the statement date be ascertained, but the analyst should also determine that full protection is carried throughout the course of the year. In many instances, the value of the inventory at the year-end is only a minor part of the total that is commonly carried in peak seasons.

⁴ Some retailers and wholesalers, however, can readily adopt a perpetual inventory system. A system for a retail furniture store was described in an article appearing on page 84 of the January, 1940, issue of the *National Furniture Review*, 267 Fifth Avenue, New York.

Finally, the analyst should see that insurance protection extends to all merchandise on consignment to others and to all materials and goods in which title and ownership is vested. Ownership, it should be remembered, carries with it the risk of loss and destruction of property regardless of location.

Valuation of Inventories

ORDINARILY, retailers and wholesalers do nothing to change the form of the products with which they deal. The value they add is what the economists call "time utility" and "place utility."¹ In valuing the inventories on hand at the close of an accounting period, it is therefore reasonable that they should add nothing to the original cost of the products except the direct cost of adding time and place utility. This usually takes the form of incoming freight and express charges and is properly added to the purchase price of the merchandise as a part of its basic cost.

It is a generally accepted accounting principle that the standard rule for the valuation of inventories is "cost or market," whichever is lower.² To value an inventory at the lower of cost or market, both cost and market values have to be determined for each item in the inventory total and then the lower of the two has to be extended as the value to be assigned the item in the inventory total.³ Finney aptly expounds the accounting propriety of valuing inventories on this basis in the following words:

"The cost or market rule conforms with the general accounting principle of providing for all losses and of anticipating no profits. If market values for purchases decline, selling prices will presumably decline with them. Reducing the inventory to market purchase price takes up the loss in the period during which the price declined, and transfers the goods to the next period at a price at which they can presumably be sold at a profit."⁴

What Is Cost?

IF we are to appreciate the meaning of cost, we must know the elements of which it may consist and the various means by which it may be

¹ Ely, Richard T., "Outlines of Economics" (The MacMillan Company, New York, 1928), p. 109.

⁴ *Ibid.*, p. 388.

determined. Variations in the methods of computing cost may not only invalidate the accuracy of inventory and operating comparisons between companies but may also distort internal comparisons of these important factors between periods in the same business unit.

Cost to a retailer and a wholesaler, as defined by the Bureau of Internal Revenue, is original invoice price less trade or other discounts (except strictly cash discounts approximating a fair interest rate, which may or may not be deducted so long as a consistent course is followed) plus transportation or other necessary charges incurred in acquiring possession of the goods.⁵

Very frequently, however, it is not feasible to identify each unit or quantity of merchandise in terms of its original invoice cost and the cost that is applied for valuation purposes may of necessity be more or less of an estimated cost or an average cost for the period. Where lots of the same merchandise are bought throughout the year at varying prices, the cost of the units or quantities that remain on hand at the close of the period may be deemed to be either:

1. The cost of the latest units purchased,
2. An average cost determined by a weighted average of the cost of all units purchased, or
3. An average cost determined by some form of a moving average of the cost of all units purchased.⁶

At the same time, in many instances it may be extremely difficult to allocate precisely the cost of incoming freight and other transportation charges to specific lots of merchandise and hence this is another factor that adds to the uncertainty of the meaning of cost.⁷

What Is Market?

MARKET in the expression "at the lower of cost or market" as applied to the valuation of mercantile inventories is ordinarily interpreted to mean replacement market. In the opinion of one outstanding ac-

countant, "market would mean the price, or value, at which similar quantities could be replaced in customary purchase quantities on the open market."⁸

In some instances, however, replacement market is impossible of exact determination, as in the case of out-of-date, obsolete, badly damaged, or worn stock, and it then becomes necessary to interpret market as an estimated selling price less marketing and shipping expenses, or other costs yet to be incurred.⁹ Thus "market" like "cost" may have a varying meaning under varying circumstances.

Where business inventories are unverified by independent public accountants, the analyst should not overlook the possibility that a well-intentioned management may have an entirely misleading conception of the correct application of the cost or market rule. Even in the case of audited statements, he should appreciate the differences of interpretation possible and satisfy himself as to the nature and consistency of the practices followed.

Objections to Cost or Market Rule

SINCE the valuation of inventories at the close of a period affects the computation of the cost of goods sold during the period, the application of the lower-of-cost-or-market rule to the closing inventories results in overstating the cost of goods sold and in understating the true gross profit when replacement costs at the year-end are below actual costs. For example, if a furniture dealer bought \$100,000 of merchandise during 1939 and sold half of it during the year for \$100,000, his true gross profit on the furniture sold was \$50,000 or 50% of its selling price. However, if the replacement cost of the remaining half had fallen to \$40,000 at the year-end, the valuation of his inventories at this lower market figure would increase the computed value of the cost of goods sold during the year to \$60,000 (purchases of \$100,000 less closing inventories of \$40,000). Therefore, his gross profit margin on the furniture sold would incorrectly appear as only \$40,000 or 40%

(sales of \$100,000 less cost of sales of \$60,000).

Again if goods are held from one period to another and replacement cost continues below actual cost but advances from one year-end to the other, then the inventory valuation of those goods will be advanced, increasing profits and violating the accounting principle that no profits should be anticipated on unmaterialized sales.

How to Overcome Objections

THE first and principal disadvantage to the cost or market rule can be removed by the use of an improved and more informative accounting technique which every analyst should know and recommend wherever feasible. It requires simply that inventories be footed at cost as well as at the lower of cost or market and that the cost valuation be used for the purpose of determining gross profits while the lower of cost or market valuation be used for balance sheet purposes. The excess of cost over the balance sheet valuation used should be shown as a separate deduction in the financial expense or "Other Deductions" section of the profit and loss statement.

To illustrate, suppose that merchandise with an original cost value of \$50,000 was found to be worth \$40,000 when valued at the lower of cost or market at the close of the year.

A closing inventory valuation of \$50,000 would be used in computing the cost of sales for the period, thus accurately stating the gross profit margin.

A special deduction of \$10,000 (the excess of cost of \$50,000 over the \$40,000 valuation at the lower of cost or market) would be shown in the extraneous deductions section of the profit and loss statement to charge the operations of the period with the decline in inventory values, thus correctly stating the net profit for the year.

A valuation of \$40,000 would be placed on inventories in the balance sheet, thus conservatively stating the asset total at the lower of cost or market.

Since in valuing inventories in the customary manner at the lower of cost or market it is necessary that both cost and market values be

(Continued on page 38)

⁵ Finney, H. A., "Principles of Accounting" (Prentice-Hall, Inc., New York, 1935) Volume 1, p. 181.

⁶ Paton, W. A., "Accountants' Handbook" (The Ronald Press Company, New York, 1935) p. 421.

⁷ Finney, *op. cit.* p. 182.

⁸ Regulations 103, Income Tax, Internal Revenue Code, (United States Treasury Department, Bureau of Internal Revenue, 1940), p. 55.

⁹ Finney, *op. cit.*, pp. 189-193.

¹ Paton, *op. cit.*, p. 423.

⁸ From the testimony of Mr. John K. Mathieson, partner, Mathieson, Aitken & Co., certified public accountants of Philadelphia, as an expert witness before the Securities and Exchange Commission in the matter of McKesson & Robbins, Inc., March, 1939, (United States Government Printing Office, Washington), p. 292.

⁹ Paton, *op. cit.* p. 422.

Adult Education in Business

Plays an Important Role in Helping Today's Executive

OF When Alice in Wonderland was perplexed by her unusual surroundings, she was told "In order for you to stay where you are you have got to run like everything." It is precisely this sort of a situation which most businessmen, in fact all of us, face in this constantly changing era in which we live. We cannot even be like Alice, stay where we are. We must be prepared to make quick adjustments, hurried decisions, and changes which we may have thought a year ago could not have been made in our organization.

Education for adults will play a greater part in this war time and in the post war readjustment periods than in World War I. Education never ends for the individual who looks forward, who has an inherent interest in himself and his job, and who believes that his work is making a worthy contribution to the development of a kind of a society in which he and his children wish to live.

Adult education is primarily a means by which men and women who work for a livelihood may be trained more intelligently and more effectively upon the task to which they are devoting their lives. Adult education goes beyond this point of an efficient and intelligent application to one's job by giving to the individual an understanding of his own experiences, his ideals, his needs, and an appreciation of the significance of the world in which he lives and of his role in the constantly changing order of things about him.

Education for Democracy

OUR democracy will survive by the efficiency which we introduce into our work and into our living or it will perish by our indifference and our slackness. Democracy must succeed by the enhanced abilities of its members who must realize that these abilities must be freely developed, both inside and outside of our formal educational system. Democracy must exact of each individual within its order the contribution of the best of

By **CARL D. SMITH**

President

Babson Institute of Business Administration



his ability or else it is doomed. Unless we, as members of our democratic society, educate ourselves to use our ability to the utmost, we may contribute greatly to the ultimate doom of our cherished democracy.

"We all" have come to feel that perhaps all is not well in the realm of the more practical phases of our way of life. Somehow the policy of following the principles of the rule of thumb and of muddling through processes in the conduct of our business establishments seems not to have been a good policy. When we survey the high percentage of business mortality, we have reason to be startled. The large number of infant businesses which are born out of an unfounded optimism linked with a minimum of intelligent understanding of sound techniques, and whose nurture is attempted without the formula of sound management principles, is unbelievable. It is little wonder that the mortality rate is startling.

In few fields of adult activity is there a more insistent need for a realistic facing up to the facts of our

managerial difficulties and to the causes for the failures of men to steer their business enterprises away from the rocks of bankruptcy and financial liquidation than in the field of business. Adult education offers much to businessmen who would help themselves, but it cannot do much for those who are complacent and self-satisfied.

The Importance of Discussion

LONG before the formal scheme of education, as we know it today, was set into action, adult education was making its contribution to the solving of the perplexing problems of the communities in which men lived and worked. They learned how to cope with the irresistible forces of nature and how to adapt themselves to the varying conditions of their early and crude environment. Through their conduct and relationships with other adults they gained valuable experiences in meeting comparable problems. In these days of national and economic stress when significant adjustments are being forced upon the individual as well as upon business units it behooves credit men, in fact all business groups of homogeneous interests, to meet together for serious and studied discussion upon matters of grave common concern. "Discussion should be one of the most important things in the world for it is almost our only arena of thinking. It is here that all the jumble of ideas and impressions that we get from reading and watching are dramatically placed in conflict. Here only is there a genuine challenge to put them in some sort of order. Without discussion the intellectual experience is only an exercise in a private gymnasium."

It has been my privilege to have worked in the field of adult education for the past twenty years with business groups. I am positive that no group is more willing to learn, more teachable, and more actively interested in finding intelligent and sound solutions to the problems which

confront its members than those engaged in commerce and industry. Yet in the light of the kaleidoscopic changes which are so familiar to all of us I am also convinced that no group in our society is in greater need of the aid which adult education can provide.

Business is not a science in the exact sense that this term may be applied to engineering, medicine, or other professions. It is rather a matter of good management and the application of common sense based upon an intelligent understanding of and experience in successful business enterprises. Good business is a matter of eliminating personality shortages and of friction which can so easily slow up progress and destroy efficiencies. Good business management is a matter of constant study and analysis of the problems that parade daily before the business executive. It is also a matter of being constantly alert for new ideas and manifesting a willingness to make adjustments to the social and economic scene before us at the moment.

Information for Quick Action

CONDITIONS in business are changing so rapidly now that one hardly dares predict what he will or can do a week or ten days hence. Such a situation places responsibility upon every wide-awake and progressive businessman that he keep himself well informed upon new developments and how they may affect his business interests. Adult education comes to his aid by supplying the means by which he may keep posted upon current and post current adjustments.

Last summer the National Association of Credit Men, in cooperation with Babson Institute of Business Administration, established a Summer Institute of Credit Management. This Institute became the vehicle by which the ideals to which I have referred in this article were implemented. From 25 states, 70 different communities, and 21 different organizations and industries came men and women who are carrying significant credit management responsibilities. These persons came to the campus of Babson Institute with an awareness of their own and their company's needs for the fullest possible information on current developments in credit management. They

Prepare Today for Credit Opportunities!

SUMMER INSTITUTE OF CREDIT MANAGEMENT

Sponsored by the National Association of Credit Men, in cooperation with Babson Institute of Business Administration, on the Campus at Babson Park, Mass.

JULY 26 – AUGUST 8, 1942

For Details as to Courses, Costs, Living Arrangements . . . write at once to Director, Summer Institute of Credit Management, One Park Avenue, New York

came with an eagerness to learn, to exchange ideas, to participate in group discussions, and to carry back to their jobs new enthusiasm for their work and new concepts of their responsibilities. The first summer's experience with this Institute was a most profitable and happy one. Credit men and women who came to the Babson Institute of Business Administration campus found already existent in that institution a consciousness that students on that campus should lay the foundation of a habit of self-education which will continue through life with the individual as he embarks upon his business career. From the staff and the faculty they found encouragement on every hand to reinforce that habit of continuous education and to take seriously the obligations which such a habit imposes upon the individual. They found an inherent belief that the institution to which they had come must justify its existence by providing adult education opportunities for homogeneous groups of businessmen who desired to keep well informed upon current business developments and future business trends.

A Free Exchange of Ideas

THE Summer Institute of Credit Management proved to be a striking example of a great oasis in the desert of formal education. Those who made up the student body and the leaders of the group, known as the faculty in more formal education terms, found significant values of adult education being stressed. They found a free and full exchange of ideas. They found encouragement for free and full discussion of controversial issues and for the expression of convictions without the feeling of inhibition. They found the opportu-

ity to think in co-operation with their fellow men and to know that their own contribution in thinking through problems would be taken into full account in the conclusions to be drawn. Those who will be fortunate enough to make up the group of students and faculty for the 1942 Summer Institute of Credit Management will find these same inherent principles of adult education at work in larger measure than in the session of 1941.

"The spirit of freedom is not in laws and institutions alone nor even chiefly. It is expressed in the expansion of the personal experience in an individual's rather than a nation's room to grow, and in the unlocking of human powers and human opportunities. No disaster can black out a nation which lives in that spirit," said the *New York Times* in a recent editorial. I believe that there has been no time in the business history of our nation when it is more imperative that men of affairs and particularly men of business should be bound together into living association by common ideals and common beliefs and who are willing to meet common questions through common thinking. The Summer Institute of Credit Management is dedicated to the principle of bringing men together from all sections of our country and from many diversified industries to live together, to think together, and to discuss together ideas, ideals, and problems, and to return to their respective communities with a better understanding of tomorrow's responsibilities of today's jobs. As Ordway Tead has said "Education is the progressive utilization of experience to assure the individual fuller and more satisfying participation in his work."

What About Your Fire Insurance?

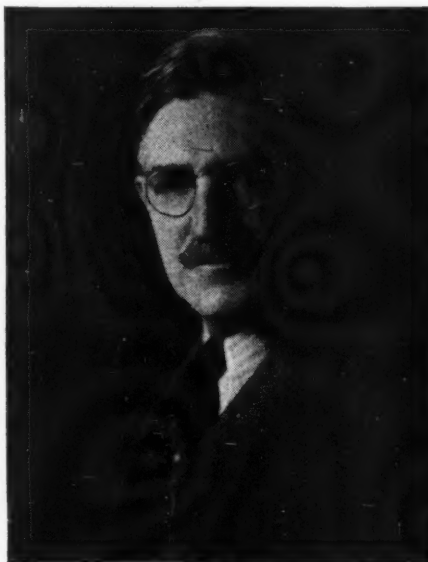
It Should Fit Tempo of War Production

We are now in, or approaching, a period of prosperity which occurs only two or three times in our business life. This period carries with it uncertainties and the purpose of this article is to call your attention to features of your insurance, which, to a degree, will offset the uncertainties.

First: Are you fully covered? Have you moved up your insurance coverage with the increased values? Values on everything are gradually working up. Commodities and merchandise have had a sharp advance in the past year. Hardly anything is up less than 15%, many commodities are up 25 to 35%. Machinery and equipment are up 10 to 20%. Building costs are up about 15%. All of this has happened in the past twelve months.

Second: What kind of policies do you have? Most likely they contain the Co-Insurance Clause, 75, 80, 90 or 100%, any of which means something to you. If your insurance covers specifically on each item, most likely you will have 75 or 80% co-insurance Clause. If your insurance covers blanket on all items, the most popular and desirable clause is the 90%, which means if you have \$100,000.00 Sound Value you should carry \$90,000.00 insurance. Suppose you only had \$75,000.00 insurance and had a fire loss of \$50,000.00, then the insurance companies only owe you 75,000/90,000ths of \$50,000.00, or \$41,666.67 instead of \$50,000.00, which they would owe if you carried \$90,000.00. You can use this method in figuring your requirements with any co-insurance clause on any value. Also bear in mind your insurance covers you on the basis of sound value and such sound value is arrived at by figuring replacement costs at time of fire and, in case of buildings, machinery and fixtures, less depreciation, however caused. On stock of merchandise, in most cases depreciation should be taken into account, but so should appreciation (increased

By **T. V. PONDER**
Ponder, Hart & Co., Louisville, Ky.



cost to replace a rise in market since purchase). On new materials and commodities, no depreciation should be taken into account. But if you want to collect on present day market values, you must figure your values before the fire on such basis and insure accordingly, or otherwise, you will become a co-insurer and have to stand your part of the loss.

Watch Your Reports

THIRD: Are you using the reporting form on your policies? Do you know what it means? If so, no doubt you have been told you are covered 100%. You may be, but most likely you are not. I have had a number of adjustments this year where this form was used and with but one exception none of the claimants had complied with the requirements. They therefore became co-insurers and did not collect all their loss. This is a very fine form of coverage, especially for large insurers, but you should know what it is all about and act accordingly. I will attempt to explain it for the benefit of those who do not know, and those who would like to check their slant

on this form of insurance.

Not all reporting forms are alike. For my purpose, I will refer to the one most commonly used. It is the one providing 100% coverage on value based on the last report, plus what changes have taken place, either up or down, since making your last report. It generally allows 30 days in which to report your values, sometimes 40, 50 or 60 days.

Now, suppose you report an inventory of \$125,000.00 as of June 30th and the fire occurs July 20th. By that time your sales and purchases have been figured and you find you have \$175,000.00 value. The adjuster will be curious to know why your values have jumped so greatly when he refers to your reported values in previous months (figures having been furnished him by the insurance company) and finds they have been running from \$110,000.00 to \$130,000.00, and not \$175,000.00. Your answer very likely will be that the market on your merchandise has gone up greatly and that you had a lot more fixtures and supplies than you thought. In short, your values had just run away without you realizing they were so high. The adjuster will answer, "That's all right, but we will go back to June 30th and check up and see what the values were then." So you and he go to work figuring June 30th values. By the same standards used in figuring your present values to be \$175,000.00, you find your value on June 30th was \$160,000.00, instead of \$125,000.00. So, complying with the terms of your 100% Reporting Form, the adjuster tells you he owes you 125,000/160,000ths of \$100,000.00, (we will say your loss has been agreed to be \$100,000.00), and you get \$78,125.00 instead of \$100,000.00.

Report True Values on Hand

IN order for you to have collected \$100,000.00, you should have reported value and paid premiums on

\$160,000.00 instead of \$125,000.00. It is important that you report true values on hand as of the date the report is made. We can clarify this some by reverting to the customary mercantile practice whereby the manufacturer often forwards merchandise to the merchant prior to the first of the year in order not to show it as an inventory item, but as an account receivable. The merchant in turn receives the merchandise, but does not enter it in his inventory, as he likewise does not wish to show a large inventory, and this is entirely in order as the merchandise probably carries a sixty or ninety day rating. Nevertheless, if the store should burn after the first of the year, the merchant would expect to collect for the merchandise and by the same token, he must report this value to the company as of January 1st. This naturally applies to other merchandise received throughout the year on or near reporting date.

Like anything else in life, you just about get what you pay for. This is no argument against the reporting form of insurance. In fact, I greatly favor it for insurers. This is only to help you understand its terms and operation and how you must handle your values and make reports to the insurance company, if you want the benefit of its advantages.

Be sure your values are reported high enough and if in doubt, it might be well to add 5 to 10% and in that way try to make sure the report takes care of your present market value, although you pay a little more premium.

Business Interruption Insurance

IF your policy is written on a per diem or weekly form, it would be well to consider it outmoded and secure one of the two more modern forms, these being generally known as the Gross Earnings Form and the Co-Insurance Form. The Gross Earnings Form is generally applicable to businesses, whereby the rehabilitation can take place in a comparatively short length of time and the payroll is either a relatively small item or it is desirable to insure it for more than ninety days. This form has no particular advantage over the other form to be discussed later, with exception of the fact that it may be written on the basis of a shorter period of suspension and carries a longer payroll coverage.

This is brought about by the fact that you are able to secure a policy covering for an amount as small as 50% of your gross earnings. This means for this form to be particularly adaptable to your business that you should be able to rehabilitate your property and begin operations in that portion of the year that percentage of gross earnings is named in your policy. In other words, if you carry a fifty percent gross earnings, you must be positive that you will be able to rebuild and commence business in six months or 50% of the year, and that not more than 50% of your collectible earnings could fall under this loss period.

Your attention is directed to the fact that all U. & O. policies carry a limitation as to the time allowed for the replacement of the stock, but this time is in addition to the time for rebuilding.

The Contribution Form is a safer form at this time, as it covers the full year's showing of net profit, fixed charges and all other continuing expense, but only gives the assured the opportunity of insuring the entire ordinary payroll for a period not in excess of ninety days. This time limit can be extended if desired by paying an additional premium.

There is some confusion in the minds of many business men about the requirements of the form, and I will attempt to explain it. Generally speaking, this form of policy insures Gross Profits plus the items of key men whose salaries may be charged to payroll account. Since the policy only excepts payroll, and heat, light and power, other items, such as taxes, depreciation and maintenance of other properties not destroyed in the fire which must be continued, can be picked up from running expense account. But in no event does the policy pay other expenses required to be insured, unless proven to continue after the fire.

Be sure to go into this feature thoroughly with your agent, together with him working out a work sheet from your records and complying fully with the required amount when buying this form of insurance. As an example of how it works, your Gross Profit, we will say, is \$200,000.00 after charging raw materials and payroll into your manufacturing costs, and leaving out items of "heat, light and power." Pull out of your payroll

account, the yearly costs of your key men, say \$20,000.00, and add to the \$200,000.00, making a total of \$220,000.00. The 80% Clause requires you to insure for \$176,000.00. There are, we will say, items of expense that you would not have to continue to pay out after a fire of \$60,000.00, on which you cannot collect. This comes off of the \$220,000.00, leaving \$160,000.00, collectible amount under this setup if your plant is down 12 months.

It Takes Longer to Rebuild

IN these days of uncertainty of deliveries on machinery and materials, time for rebuilding after a fire is being greatly extended, and plants which ordinarily could be rebuilt in six months, are now taking 8, 9 or even 10 months. Those that heretofore could be rebuilt in 10 months to a year, are taking 12 to 15 months. So if you had such a plant and it required 15 months to rebuild, then your \$176,000.00 total insurance carried comes in to pay those three additional months, as the policy which covers one year's gross earnings, is not limited to one year for rebuilding and replacing machinery and equipment.

Another feature of the co-insurance form is that it is flexible and moves with your seasonal earnings, if such be the case. Suppose you have a fire April 1st, and it is shown by previous experience that the following six months are by far your most profitable and that 66⅔% of your gross and net earnings are made in this period. You would then have the benefit of the insurance following this bulge in your earnings statement and collect accordingly. By the same token, however, should it be shown the fire occurred at the end of your more profitable period and you are going into a less profitable period, your adjustment would have to reflect this lesser earnings showing.

By all means, however, the Contribution form of U. & O. insurance is the most desirable. I favor the 80% over any other amount. Incidentally, don't think, because you have not been doing so well in the past that you are not entitled to U. & O. insurance at this time, for many concerns are making real money now who have made little or no profit the past few years, and the policy insures.

(Continued on page 32)

Latin-American Credits Continue Up-Turn

47th Semi-Annual Survey of Credits and Collections

Commercial credit and collection conditions in 21 Latin American markets continued the definite upward trend during the last half of 1941 which has now been in progress, according to these surveys, since July, 1940. The credit and collection indices of the majority of the countries surveyed have now shown a steady upward trend for a year and a half, reflecting, of course, the judgment of the United States manufacturing exporters contributing their experience to this survey on the commercial credit and collections in Latin American markets.

Prospects are excellent that the exports of all kinds of raw materials from the majority of the Latin American countries will continue, and that these countries will be asked to increase their production to satisfy the demands of the United States for additional raw materials. There is no doubt, this process which has been going on since 1940 and, will continue, will be reflected as it is in this and the two previous surveys in an improved exchange position, and commercial credit conditions of all Latin American countries.

There is no doubt that as a result of the state of war that exists between the Democratic and Axis powers, the political situations in many of the countries of Latin America have become stable and this too, must contribute to the confidence U. S. exporters have toward Latin American countries.

Where the Sales Were Made

THE Foreign Credit Interchange Bureau recorded some 57,828 commercial transactions consummated between United States manufacturing exporters and customers in all parts of the world, during 1941. Some 90% of these transactions were with customers in Western Hemisphere markets, and some 95% of the transactions consummated in Western Hemisphere markets were credit transac-

By **KENNETH H. CAMPBELL**

*Manager, Foreign Credit Interchange
Bureau of the National Association of
Credit Men*

tions with credit terms ranging from Sight Draft to 120 Days Date Draft being extended to the overseas buyers by U. S. manufacturing exporters.

More than 200 of these American manufacturing exporters located in all parts of the United States and exporting diverse lines of American products, the majority selling in all the markets surveyed, contributed information upon which this semi-annual survey of Commercial Credit and Collection Conditions is based.

The transactions which were consummated on a secured basis, either Letter of Credit or cash in advance, probably represent a larger dollar volume in total than those transactions on which credit terms were extended. Such secured transactions for the most part, represent capital goods and heavy industrial equipment, in many instances requiring from 6 to 12 months from the placing of the order to actual delivery.

How Government Credit Helps

SOME criticism has been voiced in various Latin American markets over these secured terms required on this type of export. Fortunately, the Export-Import Bank of Washington has arranged to make available certain lines of credit to the commercial banks of Central and South America operating through the central bank in each country. Such credits now make it possible for the Latin American importer of specially manufactured equipment to open credits in the United States without tying up funds or jeopardizing his local credit position because, the importer, under the Export-Import Bank plan, will not be required to produce the necessary dollar funds for the payment of the import until the equipment actually arrives in his country. This ar-

rangement is an admirable solution to this particular problem and should reduce to a mere trickle, the number of complaints that have been made in this regard in the countries of the South of us. Due to the strategic nature and the critical importance of the equipment imported into Latin America on a secured basis, a great volume of normal trade, consisting primarily of shelf goods and consumer merchandise that has gone to the various Latin American markets to credit-worthy buyers on altogether reasonable credit terms with minute credit losses, has been overlooked.

Reports of returning travellers indicate that in many lines, shelves are bare and stocks of consumer goods are spotty. Equipment is worn out and an earnest desire exists to replace and rehabilitate in such situations now that a sufficient quantity of dollar exchange is being created by the increase of imports from Latin America by the United States, as mentioned above.

Certain dislocations of industry and trade are bound to become apparent in 1942 with some 50% of our own production earmarked to war effort. A major problem is the difficulty of taking care of our own domestic requirements to keep industry running and consumers appeased, if not satisfied, and of meeting the increased demands of our Latin American neighbors.

Earmarking Production for Export

WITH the drastic curtailments that are necessary, export-minded manufacturers should earmark a certain portion of their production not necessary for the war effort, to the export market. Presumably, a larger proportion than usual of such available production should be allocated for export, and it is going to be the job of the American manufacturing exporters to convince their old and well considered Latin

American customers that they are getting more than their just share of all we are able to produce, particularly of consumer goods, and of the necessary heavy industrial equipment that will enable them to continue to produce what is so vitally needed.

Exporters of consumer goods, in most instances, now need to investigate carefully the credit risk of the individual buyer. Though exchange and import controls exist in most of the countries surveyed, dollars are generally available. In some lines which are not in short supply, exporters should be on the alert for a tendency toward over-buying.

In compiling this survey, no consideration is given to the question of governmental debts or service obligations, and the classification of "Credit Conditions" refers to the situation within the various Latin American markets from the commercial point of view only, as judged by exporting American manufacturers. Comments made by those replying to the survey under the general heading "Collection Conditions" may be considered as indicating the current trend based on the definite experience of American manufacturers having commercial collection items in the markets surveyed.

Credit Conditions

IN the last half of 1941, eighteen countries showed a continued forward movement on the credit index. Members will recall that the survey covering the last half of 1940 showed a forward movement on the part of some seventeen countries, and the survey for the first half of 1941 showed a substantial forward movement on the credit index, on the part of eighteen countries. This forward movement apparently has not abated, and while four countries moved down on the credit index during the six months period under survey, in no instance were any of these drops severe. Shipments to the French Possessions are now paid for in New York under special arrangement, which probably accounts for the French Possessions being considered "Very Poor" under "Credit Conditions" and "Prompt" in "Collections."

GOOD: PUERTO RICO, MEXICO, ARGENTINA, PANAMA, BRITISH POSSESSIONS, BRAZIL, CUBA, NETHERLANDS POSSESSIONS, PERU,

VENZUELA, URUGUAY, COLOMBIA, DOMINICAN REPUBLIC, GUATEMALA, EL SALVADOR.

Venezuela, Dominican Republic, Guatemala and El Salvador are newcomers to this group, moving up from their previous classification of "Fairly Good" six months ago. There has been some reshuffling of the order in which these countries now appear on the credit index.

FAIRLY GOOD: CHILE, BOLIVIA, ECUADOR, COSTA RICA, HAITI.

Haiti is a newcomer to this group, moving up from its previous classification of "Fair." This group is somewhat smaller than the previous survey in that four countries moved forward to the next highest classification, and only one country moved up from the next lowest classification.

FAIR: PARAGUAY, HONDURAS, NICARAGUA.

Nicaragua is a new comer to this group, moving up from its previous classification of "Poor," indicating that the improved trend which was apparent in the last survey has continued.

POOR: None.

VERY POOR: French Possessions.

Collections

FOR the second time in the history of this survey, none of the markets surveyed is evaluated on the Collection index as being "Slow" or "Very Slow," and only one is "Fairly Prompt," all others being listed as "Prompt." Sixteen countries showed a forward movement on the Collection index, and eight showed a decline, although in all cases this decline was nominal, and not enough to warrant a downward reclassification for the country in question.

PROMPT: MEXICO, ARGENTINA, PANAMA, PUERTO RICO, NETHERLANDS POSSESSIONS, BRAZIL, PERU, BRITISH POSSESSIONS, GUATEMALA, DOMINICAN REPUBLIC, CUBA, COLOMBIA, URUGUAY, VENEZUELA, ECUADOR, HAITI, PARAGUAY, CHILE, EL SALVADOR, FRENCH POSSESSIONS, BOLIVIA, NICARAGUA, HONDURAS.

Paraguay, French Possessions, Nicaragua and Honduras, are all newcomers to this group, moving up from

their previous classifications of "Fairly Prompt." A year ago, Honduras and Nicaragua were classified as "Slow." In the last two surveys they have moved forward to the "Prompt" classification.

FAIRLY PROMPT: COSTA RICA.

In the last survey, Costa Rica moved down from "Prompt" to "Fairly Prompt," and with a drop in its Collection index figure, continues in this classification in this survey.

SLOW: None.

VERY SLOW: None.

LETTER TO THE EDITOR

The Editor:

I was impressed very much, and I believe a little astounded, when I read the display copy boxed on page 18 of the December issue of Credit and Financial Management under the title, When You Ask a Bank for Credit Information!

Isn't the answer to this particular problem to be found in the use of Credit Interchange reports, both for the banker and for the inquirer?

When, as now, time is at such a premium and everyone's dollars must be employed to do the biggest job possible and do it effectively, it is imperative, in my opinion, that every business, commercial and industrial unit employ the means of obtaining credit and ledger experience information which affords such necessary economy.

How simple it is—what comparatively little time it takes—how inexpensive it is to make one inquiry with references attached, including the bank where a customer is known or is transacting business. Furthermore, it simplifies the entire procedure for those who are called upon to answer inquiries.

Credit Interchange reports are indispensable to many of us and curiously enough, it is one of those things where "the more you give the more you get."

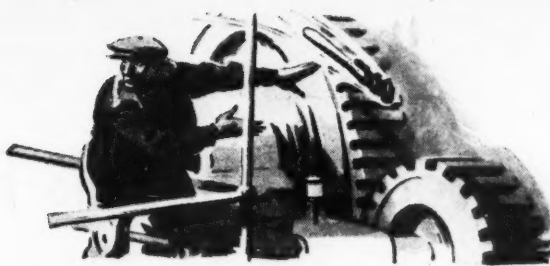
Cordially yours,

DWIGHT SHERBURNE.

The A. Bardsal Company,
Indianapolis, Ind.

★
47th Annual NACM Credit Congress
Cincinnati
★ May 10-14, 1942

Who is the partner of Sabotage?



It's *Carelessness* . . . It slows up war work . . . Let's *stop* it!

IN TWELVE MONTHS, industrial accidents cost America a billion and a half man-hours—enough time to build 45 battleships or 195,000 light tanks or 15,000 heavy bombers!

Far too much of this staggering loss was due to one cause: *carelessness*. Unless every possible precaution is taken, this loss will undoubtedly be repeated—even *increased*—under war-time pressure.

If you are an employer, do everything humanly possible to eliminate hazards. If you are an employee,

obey all safety regulations. Whoever you are, wherever you are—*be careful!* Time lost now is vital to America!

A Hartford agent, or your own insurance broker, can furnish you with expert advice on fire and accident prevention. He will also check the risks to which you are exposed, risks of large financial losses that can be covered under the Hartford's "NEW Way of Buying Insurance." Ask Western Union or Canadian National Telegraphs for the name and address of the nearest Hartford agent.

10 ways to *prevent* losses caused by *Carelessness*

1. Keep heating plants, chimneys, gas connections, electrical equipment in good order.
2. Keep premises free of rubbish — keep oily or greasy materials in approved metal cans—empty waste cans daily.
3. Keep stairs, passageways, fire escapes and exits unobstructed.
4. Install safety guards wherever needed—have proper lighting and ventilation.
5. Use only correct size electrical fuses.
6. Observe safety rules on smoking.
7. Educate employees to be careful on their own jobs, throughout the plant, on the street, at home.
8. When lifting heavy objects keep back straight, bend legs, use leg muscles — not abdominal muscles.
9. Get plenty of rest—see doctor for periodical check-up—report all injuries at once.
10. Keep car in good condition — allow plenty of time to get there without speeding.

Keep 'em flying!

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Credit Outlook for Railroads

Rail Official Presents Views on Financial Picture

Credit, as that term is used commercially, is defined by Webster's New International Dictionary as

"trust given or received; expectation of future payment for property transferred, or of fulfillment of promises given; the relation existing between one person and another who trusts in him to pay or render something in the future; mercantile reputation entitling one to be trusted, as to buy goods on credit."

So whether used in reference to the individual who has a charge account at the corner grocery or who borrows money to buy an automobile, or to the great corporation which secures loans of vast amounts of money for building its plant and facilities, primarily the word credit means belief or trust.

In its technical usage it has come to be confined to the trust placed in a debtor. In fact, it may best be understood as simply another name for debt. The same relationship which from the debtor's standpoint is called a debt is from the creditor's standpoint a credit. In short, as has been said, "Credit is nothing but the expectation of money, within some limited time."

As debts play a fundamental part in modern economic relations, it follows that a private enterprise must occupy a favorable credit position in order to exist under private operation. The extent of this belief or trust of the creditor in the ability of the enterprise to fulfill its promise to repay its debts, with interest, depends almost entirely upon the demonstrated or prospective earning capacity of the debtor.

All Based on Earning Power

PUBLIC necessity and public demand for the products of a business and its capacity to effectively meet that demand are also essential. But take away the earning power of

By **E. H. BUNNELL**

*Vice-president Finance Department,
Association of American Railroads*

any business and its security values drop and its whole credit structure will collapse.

The maintenance of that trust in private enterprise which insures good credit and holds the confidence of investors is part and parcel of the preservation of a democratic state. The lack of public confidence in private investments is reflected by the action of security markets over the past ten years. And despite the recent improvement in earnings throughout industry, no marked revival of public faith has appeared. This condition is especially pronounced in the market for railroad bonds.

The business of producing transportation is a permanent, continuing, and growing enterprise which is essential to human existence. Railroads occupy a dominant position in the transportation field—in fact, are the one indispensable agency of transportation. They have demonstrated time and again in the last two years, after passing through the longest and severest depression of all times which forced a third of the railroad industry into bankruptcy, that not only have they kept up with progress in the art of transportation but their physical plant excels in capacity and efficiency anything heretofore known in history.

Job Put Up to Railroads

IN THE year 1941 just closed the railroads were called upon to handle the biggest transportation job ever before performed in twelve months. They did the job smoothly, speedily, and without congestion, thus keeping their pledge "to meet to the full the demands of commerce and the needs of national defense."

Their record of achievement has gained for them the confidence of the

nation that the railroads, under private ownership and operation, have the ability to meet the transportation demands of the country. Witness as typical of public opinion the statement of Louis Johnson, who, as Assistant Secretary of War, said:

"From three-fifths to two-thirds of all our transportation needs, the railroads can and do meet. We must, therefore, keep them financially sound and physically strong. They are the blood stream of American life in peace and in war."

Also, the recent expression of Chairman Clarence F. Lea of the House Committee on Interstate and Foreign Commerce that:

"In all the world no job is being better done today than by the American railroads."

And the statement of Director Joseph B. Eastman of the Office of Defense Transportation on January 5, 1942, that:

"... up to date, the railroads have handled defense transportation very efficiently indeed."

But when we look for such confidence in railroad credit—in the ability of the industry to return a just reward to capital for the use of its funds—we find it conspicuously absent. In its place we find only doubt and fear. The securities of a physically strong and vital industry which a dozen years ago were sought by institutional investors are now being looked upon with misgivings.

The report of the Railroad Securities Committee of the Investment Bankers Association of America submitted in December, 1941, exemplifies the prevailing attitude by this statement:

"The market for railroad securities continues to tell the story and it portrays all too clearly the uncertainty of the railroad picture. Nothing that we can elaborate on in this report can make this picture clearer. The railroad indus-



"It is always
in season for
men to learn."
Aeschylus

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■ Designed to aid the nation's credit executives, the Summer Institute of Credit Management—a two weeks' intensive program of professional education—is sponsored by the National Association of Credit Men and conducted jointly with the Babson Institute of Business Administration.

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Typical of the reactions of the 1941 students is this unsolicited endorsement by J. Stanley Thomas, Credit Men's Ass'n of Eastern Pa., Philadelphia, Pa.: "The Summer Institute of Credit is history and it attained the heights of success, I feel, beyond the fondest hopes . . . I did not hear the semblance of a complaint from any of those in attendance and the keynote of the remarks on closing day was, 'I am sorry it is over.' . . . You are going to have a hard time to accommodate those who will desire to take the work next year . . . Congratulations for this important new chapter in the annals of the Association."

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try, taken as a whole, continues to be without credit, or at least it lacks the confidence of investors.

"With earnings greater than in any year since 1930, railroad bonds as a class are selling at extremely low prices—especially low when compared to other corporation bonds—and, after all, bond prices afford the best measure of credit. . . .

"This continued lack of confidence in the railroad outlook on the part of investors is dangerous. It presents a danger to the cause of private enterprise, for the railroads cannot continue permanently under private ownership unless they can regain the confidence of private capital. We believe, or at least hope, that this can and will be regained, but in these days when the whole private enterprise system has been under a strain it is well for us, as investment bankers, to be aware of all possible weak spots and especially one of such importance as the railroad industry."

Why Investors Are Cautious

THERE is, no doubt, justification for caution on the part of investors. The principle that a day of labor is entitled to a fair day's pay is well founded. Capital cannot be expected to work for less.

Private business financed by private credit which depends upon the power to earn cannot compete with subsidized business financed by public credit which depends upon the power to tax. Railroads have long been faced with that kind of competition and the growing tendency in recent years to extend government activities to other fields is having telling effects upon the credit position of many private industries. There must be a return to our traditional system of free private enterprise if American industry is to regain its ability to attract private capital.

The 10 Point Program for Progress adopted in 1940 by the National Association of Credit Men recognized the essential part of the railroad industry in our national economy and pledged the support of credit men in the effort to restore sound credit and financial health to this vital industry. In the furtherance of that program the article that follows on the Credit Outlook for the Railroad Industry is presented to our readers.

ONE of the major problems confronting institutional investors,

like banks and insurance companies, is the investment of their cash reserves in sound long-term investments which will yield a fair rate of return with reasonable assurance of security of the principal. For many years railroad bonds supplied a large part of their requirements for such investments.

During the economic depression of the 1930's profits in many fields of business dwindled or entirely disappeared. Along with diminished income returns, all values declined and private investment securities took the brunt of the blow. Holders of railroad bonds suffered along with those who held securities of other industries. Stricken with fear and pessimism, the investor turned from private business to government securities. There he has found an ever increasing outlet for his idle funds, created by the Federal policy of deficit financing which followed in the wake of the depression.

Notwithstanding the general improvement in earnings throughout industry, due to the immense activity in connection with our national defense and now our all-out war program, there has been no marked revival of public confidence in private enterprise in the recent past. The investors' dollars still shy away from many branches of private business. This is the painful truth. Obviously, there must be a revival of public faith, of public confidence, in our traditional system of private enterprise if American industry, including the railroads, is to regain its ability to attract private capital.

Time does not permit a detailed discussion of all the factors which may have contributed to the prevailing apathy toward railroad securities. We shall analyze the situation briefly to see to what extent the continuing lack of confidence on the part of investors is influenced by factors, other than the physical operations, entirely beyond the control of the railroads as an industry.

Business Is Essential

THE business of hauling goods and persons, in which the railroads are engaged, is certainly as essential to human existence today as it has ever been. If anything, it becomes increasingly important as our population grows and our civilization becomes more complex. Therefore,

we should all be able to agree that the business of producing transportation is a permanent, continuing and growing enterprise and not a declining industry. Railroads occupy a dominant position in the transportation industry. There is a widespread public realization today, perhaps more than ever before, that rail transportation is absolutely indispensable. There are other agencies of transportation, too, which have become indispensable supplements, particularly in extending the urban area by pickup and delivery service and the handling of certain classes of traffic within limited areas. Their importance in our national system of transportation is fully recognized. However, the country must depend upon the railroads to handle the mass-movement of freight traffic because they alone are in a position to do this job, at all times and in all seasons.

The railroads have proved over and over again in recent months that they have the capacity to meet unusual traffic demands. Despite years of continuous low earnings and deficits which forced retrenchment in every direction, they were prepared to and did take care of the unprecedented increase in traffic which followed the outbreak of war in Europe far better than many persons realize. This was the result of a long-term planning and improvement program dating back to World War I and continued through the depression years.

The roadbed was improved, heavier rails were laid, freight train speeds were increased. Today freight cars have a much larger capacity and locomotives are much more powerful than they were twenty years ago. These and many other improvements make it possible to move a much greater volume of traffic with fewer units of equipment than was ever before possible.

Scope of the Inquiry

RECOGNIZING the fact that government subsidy has played a part in the development of transportation facilities, Congress also directed that Board to investigate the extent to which such facilities and special services have been, or are, provided through public aid for the use of these carriers. In addition the Board is directed to investigate the relative tax burden borne by the different transportation agencies.

The Board of Investigation and

Research was recently appointed by the President. From preliminary pronouncements made by this Board, we are encouraged to believe that the task will be approached in a fair and realistic manner and that the findings to be made available to the Congress should be a valuable aid in enacting remedial legislation to effectuate the national policy declared in the Transportation Act of 1940.

A splendid effort to aid in the solution of our national transportation problems is being put forth by the Transportation Association of America. This Association was organized in 1935 and directs its attention to research and public education in the field of transportation and to the relationships existing between transportation agencies, its users, and investors. In attacking the problem, the Association has recognized that the plight of the transportation industry has not been caused altogether by laws and regulations, and consequently cannot be cured merely by a change in such laws. *It recognizes that the problem is largely an economic one, the solution of which lies in the re-establishment of sound credit that will attract private investors; elimination of subsidies; the reduction of true costs, and the improvement of service which will leave no inducement for an industry to engage in commercial transportation for its own account.*

Government ownership is a ghost in the economic closet which makes its appearance with each period of depression to scare private capital into flight from railroad securities. The nationalization of the railroads would undoubtedly be followed by the nationalization of all other forms of transportation. No doubt this would eventually lead to bureaucratic control over the major manufacturer and suppliers of materials and equipment used in the transportation industry. And it would be the fateful step toward setting up a form of socialism that would entirely destroy our democratic system of free enterprise.

Better Public Understanding

THE educational program being conducted by the Transportation Association of America through farm, trade, and civic organizations has developed a better public understanding and appreciation of the issues and of the serious implications

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involved in the trend toward government control of business. The result has been a decided change in the public attitude during the past few years with respect to the vital need of preserving private ownership in the field of transportation.

This change of attitude, however, does not remove the threat from the ghost in the closet. You may even have perceived it still hovering over railroad management during the recent wage controversy. Only a complete, all-out public endorsement of the principle of free private enterprise and against government ownership and operation of industry in competition with private business will effectively lay this ghost.

But do not think this ghost of government ownership and operation is confined to transportation—

We have already gone a long way toward socialization of our credit system. Government has entered fields which were previously considered as reserved to private enterprise. With the depression, savings once available for productive loans sought a haven in government obligations. With these funds government activities expanded to take in such matters as R. F. C. extension of credit to private business; the Rural Electrification Administration projects in building transmission lines and generating stations for private power, and the Department of the Interior in developing tremendous reservoirs of water which are converted into allegedly "cheap" power.

Public Credit and Transportation

BUT it is in the field of transportation that the extension of public credit has gone the longest way. Highway improvement projects, waterway improvement projects, and air field projects are considered desirable public works and for that reason it is deemed proper to defray their expenses out of general tax funds on the ground of "general welfare."

It has been estimated that the sum furnished by government for roads and street improvements aggregates not less than forty-three billion dollars. Expenditures by the Federal government for river and harbor improvements in the United States to June 30, 1940, aggregated \$2,593,000,000, according to the latest report of the Chief of Engineers.

No definite figures are available for expenditures made on airports by municipalities and other subdivisions of government, although the amount runs into hundreds of millions of dollars. The expenditure of a half-billion more for commercial operations was recommended in a recent government study.

The users of these transportation facilities constructed with public funds bear only a fraction of the cost. A large part of these huge expenditures represent government subsidy and the deficit must be made up from general tax funds. Thus we have transportation by taxation and not by earnings. The effect of these subsidies on competing forms of transportation which pay their own way and pay heavy taxes besides, is readily apparent. It makes quite a big difference whether an agency of transportation supports the government or is being supported by the government.

Summing up the railroad picture, we find an indispensable agency of an indispensable industry with a physical plant that excels, in capacity and efficiency, anything heretofore known in history. Methods and practices have been kept in pace to insure the most effective use of the physical improvements. We find railroad personnel organized for cooperative and coordinated action among themselves and with the shipping public and the Federal Government. Functionally, as is proven by the record, they possess the capacity and efficiency to carry the loads of both commerce and war.

Some Encouraging Signs

ON the financial side, the picture is less bright. Even here, however, we can see reasons for encouragement. Among these can be mentioned the plans for capital reorganization of the weak roads which have been completed or are approaching consummation; voluntary debt adjustments; refunding of outstanding bond issues on more favorable terms, and the reduction of short-term loans from currently increased earnings. All of these things add their bit to the financial strength of the railroad industry.

Looking still further, we find the Congress turning its attention to remedial legislation in an effort to provide for fair and impartial treatment of all modes of transportation and to eliminate destructive competitive

practices. Standing behind these efforts we find a more understanding and sympathetic public, with a greater appreciation of the vital importance of railroads to their national welfare.

But hanging over the horizon is still a cloud of doubt and fear—a lack of confidence and faith—that these railroads can return a just reward to capital for the use of its funds. There has been a steady flow of liquidation of railroad bonds from institutional sources during the past ten years. This has had a depressing effect on rail security prices because of the inability of the investing public to absorb large quantities of bonds. Available information indicates that commercial banks, members of the Federal Deposit Insurance Corporation, reduced their holdings of rail bonds by one-third between December 31, 1936 and June 30, 1941. Mutual savings banks held 26% less on June 30, 1939 than they had at the end of June 1936. The fire, marine, auto and casualty insurance and surety companies, as a group, reduced their railroad bonds about 32% between December 31, 1936 and December 31, 1940. It is gratifying to note, however, that life insurance companies, as a whole, were not among the active sellers. A tabulation of securities owned by six large companies, whose holdings of rail bonds are equivalent to nearly one-fifth of the total outstanding railroad funded debt, indicates that at the end of 1940 they had about 17% more rail bonds than they held at the end of the year 1928, measured in terms of par value. Expressed in terms of actual market value, there was a decrease of 7%. During this same period their investments in government obligations, both Federal and other, increased nearly 7½ times.

A Bankers Viewpoint

RIGHT at this point, I should like to direct your attention to an address by Mr. Theron A. Woodsum, Statistician for the Savings Banks Association of Maine, entitled "Fear Psychology—Bogey-Man of Investment." To the best of my knowledge, this speech was not inspired by anyone connected with the railroads. However, it so clearly and convincingly demonstrates how sound judgment can be blinded by mob psychology and the effects of this on investment values in general, and railroad bonds in particular, that we have re-

printed the address for distribution. I heartily commend this pamphlet to your careful scrutiny.

You may find of especial interest that part beginning on page 12 under the heading "Rail Bonds Victims of Public Opinion" and also Mr. Woodsum's conclusion found on page 13 reading as follows:

"Next to the United States Government bonds, the best securities in America today are certain railroad bonds. Whatever difficulties the industry may have to face, they cannot by any stretch of the imagination be sufficiently fatal to justify the recent action of railroad securities in our markets."

This we admit is one man's opinion, but it contains food for thought.

Behind this whole scene is still more uncertainty and apprehension because of a growing tendency to subordinate our American system of free enterprise to political exploitation and governmental experiments. As for example, the pending record-breaking billion dollar Rivers and Harbors pork barrel bill recently reported out favorably by the House Committee. This bill includes such projects as the St. Lawrence Waterway, the Florida Ship Canal, the Tombigbee-Tennessee Canal and the channel project, and others which would pyramid the vast expenditures for similar non-defense projects that have been going on for years; add force to the already serious inflationary trend, and would take vital materials needed for our war effort.

I think it is safe to assume that all of us here are believers in a democratic economy. By that is meant the unchallenged privilege to engage freely in legitimate enterprise,—with government as the umpire but not a competitor,—where we may fairly compete in productive endeavors with the hope for profits as the incentive for our efforts. Under that system, all types of business are inter-related and inter-dependent. To preserve that system and avoid the inevitable consequences to all private endeavors is a responsibility for every business enterprise, and every good American. —"United we stand; divided we fall."

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What Ratios Tell Credit Analysts

(Cont'd from P. 11) as brief as possible, let us outline one that seems sound.

First of all, in assembling all the statements we have available or can obtain, concerning a particular industry, it is important that only firms in much the same business be grouped. As an example, in an analysis of the pump manufacturing industry, fifty-eight statements of firms including the word "pump" in their names were assembled. Of these, seventeen were discarded because they were sales agents; seven were eliminated because sales and net income figures could not be obtained; and six were found to do a greater volume in manufacturing apparatus other than pumps, leaving twenty-eight legitimate pump manufacturers.

The next point is the manner of using these twenty-eight statements. To take the sum total of the cash, the sum of receivables, etc., of all these statements and develop ratios therefrom has not proved a satisfactory procedure, because the resulting ratios were too greatly influenced by the larger companies. We find the most exact method is to work out the ratios for each company, separate them into quartiles, and then average those in the second and third quartiles. This process eliminates unusually high and low ratios, and furnished median ratios that have proved to be not only reasonable, but sound.

RETURNING to consideration of the statements discussed previously, median ratios for the year 1938 of the industry in which this

the concern being studied continued to operate because of the leniency of the creditors, and from the average ratios of the industry we readily see that this condition was not reflected in any way by the industry as a whole. It will be recognized that industry studies give us much more definite and specific averages against which to compare individual ratios.

In the discussion of ratios in the forepart of this article, it was stated that the credit fraternity generally accepted a liquid ratio of 100% and a current ratio of 200% as minimums of safety. While in the case of this particular industry these ratios might still be considered the safety minimums, we now know that the averages of the industry are considerably above those minimums. We should particularly note the ratio of inventory to working capital. In discussing this ratio previously, it was noted that an authority had stated that "a firm having a net worth of \$250,000 or more can safely invest 75% of its working capital in inventory, and considering business as a whole, experience has tended to verify this statement." Without contradicting this statement, we observe that in the instance of this particular industry, the median ratio for 1938 was 68%. Comparison of other ratios will show similar variances.

ANALYSES of a number of industries have been made, and some rather surprising and enlightening facts have been revealed. For that reason, when discussing certain individual ratios previously, with reference to minimum and maximum safety ratios, it was stated that such safety ratios were found to be sound in considering "business in general."

	Subject Company's Ratios	Median Industry Ratios
Liquid Assets to Current Liabilities	32	211
Current Assets to Current Liabilities	122	389
Average Age Receivables	47	59
Average Age Inventories	135	90
Average Age Conversion	182	149
Average Age Current Liabilities	150	60
Average Age Working Capital in Use	32	89
Inventory to Working Capital	410	68
Current Liabilities to Tangible Net Worth ...	61	20
Total Debt to Tangible Net Worth	120	34
Total Fixed Assets to Tangible Net Worth...	144	56

firm is engaged have been developed, and comparison of our subject's 1938 current and capital ratios with the median of the industry is interesting.

We have previously shown that

However, for the credit executive who wants specific figures against which to compare those of his risk, the individual industry average should meet his requirements.

Ratios—what they tell us! Properly conceived and properly interpreted ratios not only are of invaluable assistance to the credit executive, but can be of great assistance to management. Had management studied the above analysis of the 1934 and 1935 statement during 1936 and been guided thereby, the 1936 picture could have been improved and 1937 would have reflected a far different condition. Likewise, the credit executives of this company's suppliers could have avoided being among those who helped carry the company from 1937 through 1938. If we interpret them aright, ratios do tell us when to beware. We must then act in accordance with the warning.

How Purchase of U. S. Defense Bonds Fights Inflation

By DR. MARCUS NADLER Professor of Finance, New York University*

Every major war in the past has been accompanied by a sharp rise in commodity prices. This occurred during the Napoleonic Wars, the Civil War in this country, and during the first World War. There are many, therefore, who argue, on the basis of the experience of the past, that the present world-wide conflict will also bring in its wake a sharp increase in commodity prices, commonly referred to as inflation. In order to be able to answer the question as to whether inflation will occur in the United States, one must first analyze why wars invariably are accompanied by a sharp rise in commodity prices. Two sets of factors contribute to this development, the fiscal position of the Government, and the dislocation of industry and trade.

Wars are very costly and cannot be financed entirely out of taxation. Hence the Government is forced to borrow large sums to meet the huge war expenditures. However, only if the Government borrows from the commercial banks is the deficit inflationary in character. If, however, the Government finances its deficit through the sale of obligations to ultimate investors then the borrowing, however large, does not add to the purchasing power of the people and is, therefore, not inflationary in character. It is certain that the United States

* From address before New York State Society of Certified Public Accountants.

Government will make every effort possible to borrow from ultimate investors and not from the banks. Higher taxes plus increased savings on the part of the people will be important deterrents to a further sharp rise in commodity prices.

Cause of Price Rises

THE dislocation of industry and trade caused by war is of even greater importance in the process of inflation. It leads to a sharp increase in the national income and a decrease in the supply of commodities available for consumption. These two factors combined invariably lead to a sharp rise in prices. In this respect too the Government has learned a great deal from past experience. Rationing of commodities has already been instituted in this country and in all probability will be broadened as the shift from peacetime to wartime increases.

The only real danger of inflation emanates from pressure groups, particularly from the farm bloc which had thought through artificial means to increase prices of agricultural commodities. In fact, the greatest increase in prices that has occurred so far was in the group of farm commodities, of which there is a surplus, and not so much in those groups of commodities of which there is a shortage. It is, however, expected that in view of the great emergency which confronts the nation, the pressure groups, too, will be guided more by patriotic than selfish reasons.

How Bonds Help Government

MODERN wars are primarily a question of production and of organizing and coordinating the productive capacity of the country. The individual citizen can contribute a great deal toward fighting inflation by placing his savings at the disposal of the Government. In doing so not only is his own purchasing power reduced but also he relieves the Government of the dependence on commercial banks. The sale of national defense obligations in December was very encouraging, aggregating about 500 million dollars. If this amount is doubled—and in view of the large national income, it could be—the danger of inflation will be materially reduced in spite of the large deficit and the serious dislocations caused by the war.

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They are—as far as medical care and compensation are concerned.

But . . . four times greater than the total amount paid out by your insurance company each year are the hidden costs of accidents which come out of your own pocket.

Hidden costs include loss of skilled services; damage to machinery and product; precious time squandered in repairs and in training new workers: all of which

boils down to lowered efficiency, morale, production and, naturally, profits.

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By drastically reducing accidents in your plant, slashing away at the hidden costs behind them, our losses are cut as well as yours. The cost of your compensation insurance drops, your profits rise. It's as simple as that.

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Host City for 47th Credit Congress

Cincinnati: A Happy Blend of Industry and Culture

By Eleanor G. Pierce

C From the standpoint of industry, Cincinnati now stands among the important manufacturing centers of the United States. It is said to be the world's largest producer of soap, machine tools and playing cards. Its varied major industries produce laundry machinery, printing inks, books, automobile parts, boots and shoes, clothing, sheet metal products, drugs and medicines, pianos, airplanes and pottery.

During the latter part of the 19th century Cincinnati was the largest pork packing center in the world. Its meat-packing industry today is large and flourishing. Cincinnati has the largest sporting goods manufactory under one roof in the world. More playing cards are made in the Queen City than in the rest of the world combined. In all, there are 2,200 industrial plants, representing 250 industries in this city which in May, 1942, will be host to the NACM 47th annual Credit Congress.

Cincinnati is a leading bituminous coal center, handling over 600,000 cars annually on the Cincinnati terminal and nearly 3,000,000 tons additional on the river. The river has played an important part in the growth of the Queen City. The coming of the steamboat made this city the metropolis of the Miami country. It gave Cincinnati the opportunity of doing business with the Mississippi Valley and of exporting products through the New Orleans gateways.

The bulk of commerce between the North Central States and the South now passes through Cincinnati. The city is served by eight trunk line railroads representing 20% of the railroad mileage in the United States. Cincinnati is the only city in the country owning an interstate railroad, the Cincinnati Southern. It is now under lease and is operated by the Southern Railway. A Municipal Airport covering 1,100 acres is only 15 minutes from the heart of the city and there are five other airports in the metropolitan area.

Viewing industrial Cincinnati through the eyes of her citizens, we are well pleased and can well be proud of her industrial eminence. A healthy industrial life means employment and good wages. It makes for a wide-awake city, one which will grow and advance steadily. But there are other points to be considered before one can pronounce a city a good place to live in.

An excellent municipal government, a history dating from pioneer days, progress built upon a steadfast foundation, large and thriving industries—all these are good. And now we turn from attributes to the Queen City's aesthetic qualities, her cultural and social institutions

and to those sources from which man draws spiritual sustenance.

Cincinnati has a strong and justifiable tradition of civic cooperation in education, culture, music, welfare and public service fields. The city is noted for its municipal university, its museums, conservatories, and musical organizations, for its many beautiful parks and fine residences, and for its splendid monuments. At a very early period in the history of Cincinnati, cultural influences manifested themselves and left an indelible imprint on the population.

In music and art especially the city is recognized as a leader the country over. The first singing school in Cincinnati was established 12 years after the settlement came into being, when the population numbered only 750. The first music was published in Cincinnati in 1850. The first saengerfest of America was held here in 1849. It was a great event of song. This event was the forerunner and inspiration for the famous May Festivals which the Queen City holds today. The Cincinnati College of Music was founded in 1878. This—with the Cincinnati Conservatory of Music and the internationally known Symphony Orchestra—has focused the musical attention of the nation on Cincinnati for more than half a century.

In art the city is likewise prominent. The Cincinnati Art Museum and the Art Academy were among the first founded in America. Here some of the nation's greatest masters have studied and taught. A well-endowed fine arts institute upholds the tradition. Such well-known early American artists as Eckstein and Hiram Powers gave an immense impetus to art in the Queen City which was continued by the famous Frank Duveneck. The Cincinnati Art Museum owns the most complete and representative collection of Duveneck's works in the world. Students and visitors come from all parts of the country to see it.

The taste and culture of Cincinnatians is reflected in the monuments and statues which grace the city. Certainly the most famous of these is the Tyler-Davidson Fountain familiar to anyone who has ever visited the Queen City. This large bronze statue stands on a plaza in the very heart of the city. It has given its name to "Fountain Square," the very hub of Cincinnati.

The Tyler Davidson Fountain could tell an interesting story, a story which begins with its genesis in the Royal Bavarian Bronze Foundry of Munich, passes on the unveiling ceremonies of 1871 in Cincinnati, and continues through the years in which it has stood and

looked down upon the rapidly growing city of its adoption. Henry Probasco presented the fountain to the city of Cincinnati in memory of Tyler Davidson, his late business partner and friend. He made the gift with the proviso that the city of Cincinnati would engage to give it a suitable setting, provide water for its operation (including iced water for the drinking fountains) and provide properly for its protection and maintenance.

The fountain was designed by a vigorous and daring young Westphalian artist, August von Kerling by name, who pursued his art studies in Munich, Bavaria. It was cast in the Royal Foundry of Munich, where so many of Europe's masterpieces of sculpture were converted into bronze. In honor of the donor of the fountain, the name of Fifth Street between Vine and Walnut was formally and legally changed to Probasco Place. But the public found "Fountain Square" too apt and convenient a term to use the longer name—and so it has been ever since.

The famous parks have contributed much to the beauty of Cincinnati. The Queen City is built on two plateaus. Business, wholesale and manufacturing districts have collected in the lower places while fine residences grace the seven picturesque hills surrounding the plateaus. Added to the natural scenic beauty are many parks and boulevards. In all there are 93 parks covering a total of 3,162 acres. And there are 29 playgrounds with a season attendance of 2,000,000. Cincinnati was the first American city to adopt so extensive a plan for the building of streets, subways, bridges, playgrounds and parks. Some of the most famous parks: Eden (with its newly completed conservatory); Ault, Burnet Woods, Alms, Mt. Storn, Mt. Echo, Victory, Lincoln and Garfield. The parks are beautifully landscaped and provide commanding views. Many of them contain reservoirs and lakes for boating and skating, and natural amphitheatres where public concerts are given. The famous Zoological Gardens are owned by the city. The Cincinnati "Zoo" is one of the oldest, finest and largest in the country.

The Queen City is proud of the University of Cincinnati, the largest municipally owned university (the 15th university in enrollment) in the United States.

RELATIVELY *NEW* IN 1922 *A Giant in 1942*

DO YOU recognize the commodity pictured in the background? Potatoes? Eggs? Coffee? No — soy beans! In 1922, Soy Beans had a crop value in the United States of less than \$100,000. Since then a ten-fold increase has taken place. The crop value for 1941 was almost \$100,000,000. An amazing increase to fill a modern demand.

This Same 20-Year Span Has Seen a Sensational Growth of

Field Warehousing *By Douglas-Guardian*

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This institution was the originator of the cooperative system of education in the college of engineering and commerce. The enrollment is 13,000. (See the March, 1929, issue, the Norfolk and Western Magazine, page 179, for a comprehensive article on the University of Cincinnati.) Added to the educational advantages of the city are Xavier University (see page 82, March, 1933, issue of the Magazine), 54 elementary schools, nine junior high schools and seven high schools. The city has one central library and 33 branches. Cincinnati has five radio stations.

And so we look at Cincinnati through the eyes of her citizens—and we find the Queen City an exceedingly good place to live in. We can understand the Cincinnati's civic pride, his contentment and loyalty. The Norfolk and Western has long been a "citizen" of the Queen City. As a citizen the railroad is interested in her past and present. The railroad is proud of Cincinnati's accomplishments and will watch her future with expectation and hope.

What About Your Fire Insurance

(Continued from page 18)

on the basis of "future expectations," to be proven of course, by your books and other supporting data.

More Coverage—Less Cost

ONE thing more about U. & O. insurance. You are buying more coverage for your premium dollar today than ever before. As I mentioned above, it is taking from one-third to two-thirds longer to rebuild plants and especially to replace machinery and equipment, than in any period since the last war.

Also more U. & O. insurance is being sold every day and the companies will sooner or later begin to feel the effects in increased losses and may find it necessary to increase their rates. I very readily and firmly recommend you giving serious consideration to the purchase of U. & O. insurance if you have none. If you already have some, check up as to the kind you have and the amount you need. Take up the subject with your agent if you have a good one. If he

is not good, get a good one, as insurance is important.

Just one more point. Have all your policies include comprehensive coverage—come as nearly as possible being covered on every probable hazard. Insurance is cheaper today than ever before in the history of the business. A good agent will not stop until he has your rate as low as is possible for him to get it.

Select your agent and insurance company with care that you may have good coverage and insure fully that you may have security and peace of mind.

Rochester Issues Membership Roster

Rochester: The Rochester Association of Credit Men has just issued a new official membership roster. A new feature of the roster this year is a write-up of the purposes and program of the Association. Jack D. Cogswell, Secretary of the Rochester Association, in his letter distributing the new roster booklet, pointed out to his members, "Your Association was organized in 1896 and is starting its forty-sixth year of service. Use the roster when consulting other business houses and be proud of your membership in the Association. Also, bear in mind that the member who participates actively in the Association is the one who gets the maximum benefit from his membership."

Hower Clinic at Pittsburgh

Pittsburgh: The Credit Education Committee has arranged for a Letter Writing Clinic starting on January 12, to be conducted by Miss Aline E. Hower. This clinic is to be open to all employees of member organizations and those who might be interested in better business correspondence.

Charles Colton at Rochester

Rochester: Charles A. Colton, a former President of the Boston Association of Credit Men and a former member of the National Board of Directors of N. A. C. M., is assisting the new Professional Claims Division of the Service Corporation of the Rochester Association of Credit Men.

47th Annual NACM Credit Congress
Cincinnati May 10-14, 1942

Ask Defense Data In Agency Reports

Chicago—Believing that credit executives should have definite information for their guidance in dealing with companies affected by priorities and the allocation of materials, due to the defense program, (as ordered by the Supplies, Priorities & Allocations Board), the Mercantile Agency Committee of the Chicago Association of Credit Men, at a recent meeting, adopted resolutions to this end. The resolutions were presented to the board of directors of the association and unanimously approved. They were then forwarded to the National Association of Credit Men in New York, with the request that they be referred to the executives of the mercantile agency reporting companies.

The mercantile agency reporting companies are requested to include in their reports the percentage of manufacturing devoted to the production of goods distributed through the usual commercial outlets and also to report the effect of shortages of critical materials upon production for civilian usage.

ANALYSIS OF THE UNIFORM TRUST RECEIPTS ACT. By Christian Djourup. Published by Argus Graphic Arts Service, 30 Ferry St., New York City. Price, \$5.00.

The Trust Receipt procedure is particularly adapted to the special problems of defense production finance. How transactions under the law can be used for producers under the defense program, and what additional steps have to be taken in states which have not adopted the Uniform Trust Receipts Act are specially covered in this new book. A preface for its publication has been supplied by Professor Karl N. Llewellyn, draftsman of the basic Uniform Trust Receipts Act which is the highest commendation of the quality of the study made.

Position Wanted

ASSISTANT TO OVERBURDENED CREDIT MANAGER—If you can utilize a capable, detail-devouring, quick-learning, money-saving young man who has practiced law for eight years (attorney); collected 98% of claims past collection by credit manager; studied accounting, statistics and taxation, write to Lester D. Rand, 850 East 17th Street, Brooklyn, N. Y.

ASSISTANT: To busy executive in food line, handle credits and collections; experience in foreign, domestic, apply remittances, figure discounts, balance accounts, know trucking, railroad, steamship angles and letters of credit. Citizen. Age 46. Box B-1, Credit and Financial Management.

CREDIT MAN with sixteen years experience in wholesale food products desires change. Age 45. Married. Presently employed with National concern. Address Box B-2, Credit and Financial Management.

NEWS ABOUT CREDIT MATTERS

A section devoted to
Credit Association affairs

February, 1942

Copy deadline
15th of month

R. W. Watson Is Retired on Pension By Los Angeles Bank

Los Angeles: R. W. Watson, National Vice President of N.A.C.M., representing the Western District, on January 1st, retired as Vice President, Bank of America National Trust and Savings Association, Los Angeles. The retirement became effective as Mr. Watson had reached the age when all employees of the bank are required on pension.

Mr. Watson began his business career in Los Angeles in 1893. In 1920 he went with the Hellman Commercial Trust and Savings Bank. Through a series of mergers between the Hellman Bank and others, which finally merged with the Bank of America, Mr. Watson retained his position as Vice President in charge of the Credit Department in the Southern California area. He was one of the organizers of the Los Angeles Bank Credit Men's Association in 1923 and was also a charter member of a Southern California Chapter of Robert Morris Associates. He had been a member of the Los Angeles Credit Men's Association for twenty-two years. In 1938 he was elected National Director of N.A.C.M., and in 1941 was elevated to the Vice Presidency.

Mr. Watson has been elected life member of the Los Angeles Credit Men's Association, and, although retired from active business, will continue his interest in Credit Association activities. He expects to be present at the Cincinnati Credit Congress.

Is Named Director

Chicago: Elmer T. Larson, Assistant Treasurer and Credit Manager of the W. D. Allen Manufacturing Company, has been named a Director of his firm, which is one of the oldest mill and factory supply establishments in the Chicago area.

Mr. Larson is Chairman of the Chicago Fraud Prevention Committee and has been active for years in local Association circles and a regular attendant at National Conventions.

Dreutzer Recuperating

Cincinnati: National Director O. E. Dreutzer is recuperating at home after a severe operation on December 28th. Mr. Dreutzer is well on the road to recovery and hopes to return to business shortly.

47th Credit Congress Takes Definite Form



R. W. Watson, Los Angeles

War Insurance Does Not Cover Account Books

The Federal Loan Administrator announced, December 13, 1941, that with the approval of the President, the Reconstruction Finance Corporation has created the War Insurance Corporation, with a capital of \$100,000,000, to provide reasonable protection against losses resulting from enemy attacks which may be sustained by owners of property in Continental United States through damage to, or destruction of, buildings and personal property.

Pending completion of details, any such losses will be protected from December 13, 1941, up to a total of \$100,000,000.

Accounts, bills, currency, debts, evidences of debt, money, notes, securities, paintings and other objects of art are not covered.

It is expected that a premium may be charged for coverage of losses in excess of some stated amount.

For further developments in this matter, consult the Washington office of the Association. 815 15 St., N.W., Washington, D.C.

Cincinnati Has Many Committees In Active Work

By FREDERICK H. SCHROP
Convention Director

CThe beginning of things is always interesting. The beginning of a National Convention undertaking takes its place among interesting things.

Our first attention with such a project includes the formation of committees, later to be coordinated and meshed into a smooth running organization having the appearance and producing the results of a veteran unit. As many committee members are experiencing the operation of a National Convention for the first time, long range planning and infinite care of both small and large matters, is required.

The first step is the appointment of a general Convention Chairman—for from the very beginning, everything revolves around him. As previously announced, for this important post, a former National President has been selected—Mr. George J. Gruen, chairman of the Board of the Gruen Watch Co., Cincinnati.

The next step following the selection of Mr. Gruen was necessary consideration of the sequence of events to follow. Local leaders headed by National Director Russell Duepre, President William A. Kroger, Secretary Harry Voss and Officers and Directors of the Cincinnati Association met as far back as July, 1941 and began their study of the plans in consultation with Executive Manager Henry Heimann and the Convention Director.

The announcement of the committee personnel is important in that it presents the organization as a working force and finds a place of activity for each and every member.

For weeks in advance of our 47th Annual Credit Congress, these committees will be meeting, working and planning at evening meetings and noon meetings to make this event in Cincinnati from May 10 to May 14, 1942, one of the outstanding Conventions in National Association history.

This is the basis for the prediction that
(Continued on page 36)

News from Local Associations

Louisville: Herman M. Kessler, Assistant Secretary and Estates Manager of the Louisville Credit Men's Association, has severed his connection with the organization after seventeen years of service. Kessler has accepted the Presidency of the Standard Printing Company, Louisville, one of the largest in the local industry, which he recently helped reorganize under Chapter X of the Chandler Act, serving as Secretary to the Creditors' Committee. His resignation is a distinct loss, but the Association officials felt they could not stand in the way of the splendid opportunity afforded by his new connection. The best wishes of Kessler's many friends go with him in his new work.

Albany: The Board of Directors of the Eastern New York Association of Credit Men at its January 12th meeting voted to buy one \$100 Series F Defense Bond. It is hoped that this will be the first of a series of purchases of Defense Bonds by the Association as funds are available.

New York: The 47th annual meeting and banquet of the New York Credit Men's Association will be held in the Grand Ballroom of the Hotel Waldorf-Astoria on Tuesday, February 3rd. Dr. Paul F. Cadman and Clayton Rand, Editor, The Dixie Press, of Gulfport, Miss., will be the principal speakers. Both Dr. Cadman and Clayton Rand will be remembered as speakers at National Conventions of N.A.C.M. Dr. Cadman is now associated with the American Bankers' Association in the Economic Research Department.

Syracuse: The annual dinner dance and ladies night of the Syracuse Association of Credit Men was held at the Onondaga Hotel on January 10th. The entertainment was under the direction of Fred Weymer as chairman of the program committee, which turned out to be one of the most successful affairs held by the local organization.

Seattle: The annual guest night of the Seattle Association of Credit Men held at the New Washington Hotel, on Monday evening, January 19th, drew a large attendance. The membership committee, of the Seattle Association, is offering to pay the Conference registration fee of \$6.00 for the 25th Annual Northwest Conference of Credit Managers to be held in March in Tacoma, Washington, four points being given for each new member signed for the Association.

Hartford: On January 27th the Hartford Association of Credit Men was host to a joint meeting of Connecticut Associations, including Bridgeport, New Haven and Waterbury, at a dinner meeting at the University Club. Earle L. Milliken, State Director of the Division of Contract Distribution, O.P.M., spoke on "Priorities and How They Affect Defense Orders."

Credit Career

Ethel Norvell Leonard, Credit Manager of the Columbia Brewing Company, St. Louis, is, as far as we know, the only woman credit manager for a brewing company.

Mrs. Leonard started out to be a school teacher. She received an appointment to a school in Illinois and then got a job in the credit department of Shu-Stiles, Inc., until her new school term began. Her work in the credit department became so interesting to her that she gave up the teaching profession and carried on the credit work, going on to the Brown Shoe Company, where she handled collection correspondence and bankruptcy cases. In 1934, when the Columbia Brewing Company was organized, she was engaged in the credit department.



Mrs. Leonard is the president of the Credit Women's Group of the St. Louis Association this year. She has been a member of the St. Louis Association for a number of years, where she took an active part in the shoe and clothing group. She served on the Fraud Prevention Committee during the drive for funds and is now one of the active members of the Brewers Group of the St. Louis Association.

Our Distaff Side

A recent check-up of the Credit Women's Clubs shows that 18 clubs are now sponsoring a total of 23 scholarships. The cities in which these clubs are located are as follows:

Binghamton	New York
Chicago	Phoenix
Cleveland	Pittsburgh
Detroit (2)	Portland
El Paso	Rochester (2)
Louisville (4)	San Francisco
Minneapolis	Seattle
Newark	Syracuse
New Orleans	Utica

The scholarship award made each year at the annual convention at the Credit Women's Breakfast will be made to the club promoting the best work in education.

Rochester: The Women's Group of the Rochester Association of Credit Men held its annual charity bridge party at Hotel Seneca on Monday, January 26th. The party arrangements were under the direction of Annie Currie as General Chairman.

Louisville: The Credit Women's Group of the Louisville Association has awarded scholarships for 1941-42 season as follows: Miss Evelyn A. Hilliard, Merrimac Bat-

(Continued on page 38)

National Institute Activities

Portland—In its second year the local NIC Chapter has recorded a total enrollment of 65 in the various courses despite the loss of many actual and prospective students because of the national emergency. Chapter membership numbers 45, over 20 being registered with the National Institute of Credit. Thus far the local students have received 22 Associate and 13 Fellow awards.

Besides its regular classes, the Chapter scheduled 4 meetings during the year starting the Fall semester with a dinner meeting in November at which J. Lowell Henderson of Vancouver, Wash., presented a demonstration of memory training. At the second meeting of the year, N. R. Alber, former legislator and member of the legal staff of the Portland ACM, lectured on the State Legislature's work.

Louisville—The local Chapter NIC has announced a class in Practical Credit Problems, in cooperation with the University of Louisville, which will begin February 5, and continue weekly each Thursday until May 21. J. K. Scoggin will be the instructor. On January 13 the Chapter meeting heard Wallace M. Davis, Vice Pres., Citizens Union Nat'l Bank, discuss "The Banker Analyzes the Financial Statement."

Albany—Members of the Albany Chapter NIC were interested in the recent announcement that Dr. Thomas Kinsella of State College for Teachers has been appointed senior business economist in the Washington office of the O.P.M. He will be active in price fixing matters in the machinery division. Dr. Kinsella conducted several classes for the Albany Chapter NIC in recent years.

Chicago—The local NIC Chapter has developed plans which will devote the rest of the semester to the exposition and analysis of developments at a typical creditors' meeting. This new program began at the Dec. 10 meeting at which the use of Credit Interchange reports by the credit manager was explained by I. R. Wagar of E. J. Brach & Co., followed by an analysis of the Credit Interchange report by W. L. Haney, Manager of the Chicago ACM Credit Interchange Bureau. Another speaker was H. J. Kroll of Dun & Bradstreet.

The meeting was then turned into an open discussion, centering around the problems of a hypothetical firm which had asked its creditors to work out a plan of reorganization, necessitated by the imposition of priorities. Each one present at the meeting was theoretically involved as a creditor and at the forthcoming Feb. meeting these "creditors" will be expected to appear to protect the interests of their respective firms. Subsequent meetings will continue the analysis of this special situation.

Board of Directors of National Association of Credit Men Urges Full Use of Credit Interchange

WE, the members of the Board of Directors of the National Association of Credit Men, declare that the interchange of ledger experience among credit executives is a logical function of a cooperative, non-profit organization.

WE RECORD further our firm belief that the Credit Interchange system of the NACM is the logical answer to the credit executives' need for a sound method of ledger experience interchange.

REALIZING that such interchange of credit information must be based on that high confidence which the NACM has fostered among credit executives in this nation, we call for the enlistment of each NACM member firm in the furtherance of our cooperative aim to provide a complete coverage.

WE STATE that, without doubt, accomplishment of this objective will save American business millions of dollars, both in avoidable bad debt losses and in increased efficiency of credit department operations.

WE REAFFIRM the declaration of the founders of the NACM, who incorporated in its Constitution, as one of its primary objectives, "the improvement of methods and principles for the interchange of credit information." The commendable results that have already been achieved in the domestic and in the foreign fields have vindicated their foresight.

THEREFORE we urge every member firm of the NACM to emulate the example of the 7,000 credit executives who today are cooperating in the Association's Credit Interchange system. We urge every member firm to protect itself from the losses that develop when credit management must make decisions based on either incorrect or incomplete information.

CONVINCED that the judgment and fruitful experience of 7,000 credit executives is proof of the value received from Credit Interchange service, we ask that each credit executive pledge his full cooperation, file his customers lists, answer inquiries promptly, and take all the necessary other steps to make the service even more efficient and more highly profitable to its users.

TO MEET THE URGENCY of the situation that today faces business, we recommend to each local association, its officers and directors that they implement this declaration by continuing consideration of the means of improving even further this vital ledger experience interchange service for credit men.

POOR INFORMATION, not poor judgment, we — the National Board of Directors — emphasize, is the cause of most credit losses.

THE NACM CREDIT INTERCHANGE SYSTEM has one aim: Through creditor cooperation, the improvement of the quality of credit information and the consequent reduction in credit losses.

Board of Directors,
National Association of Credit Men

Cincinnati Has Many Committees In Active Work

(Continued from page 33)

the coming event will be exceptionally attractive as to efficiency of operation, educational, business helpfulness and inspirational values and coming at a time when all these factors are needed by every credit manager in the successful handling of daily work and credit and financial duties.

Those named and their firm connections are shown in the following list.

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New System Speeds Up Credit Routine

(Continued from page 7)

a past due account and submits an order at the same time, the order cannot be shipped until the post-dated check is deposited. This policy, we find has cut down considerably the issuing of post-dated checks.

Back to our system again, four units consisting of eight desks, housing approximately 20,000 accounts are operated by four unit clerks. The system occupies just a small corner

of our office. We are not any longer troubled with taking ledgers in and out of vaults or cabinets as the unit desks have full, rated, fire protection 24 hours a day. The question has also been asked if the installation of this new system was difficult or expensive. We experienced no unusual difficulties. The transfer from the old system to the new did not delay our work considerably, and the transition from the old system to the new was made with a minimum of difficulty and confusion.

THE RIGHT TO FEEL SECURE



Today with freedom in jeopardy, a united America faces the task ahead with a grim determination to preserve our nation's right to feel secure. In carrying on the common effort, every person, every concern, has a part to play. Our part in preserving the right to feel secure is in protecting property values through Home-Town Agents in every community in America.

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DEPENDABLE INSURANCE SINCE 1863

Commercial Credit Analysis

(Continued from page 14)

known and considered, the additional trouble required to determine total footings on each basis should not be prohibitive to the use of this refined procedure.

The second objection to the use of the rule can be overcome by defining cost for valuation purposes as either actual cost or last inventory value where goods are held for two or more periods.

The Retail Method of Inventory Valuation

AMONG retail establishments, especially the larger department stores, there has developed a special method of valuing inventories which is now quite common and which has received the official sanction of the National Retail Dry Goods Association and the Bureau of Internal Revenue. It takes advantage of the fact that retail merchandise is generally marked, item by item, with selling prices rather than costs and enables closing inventories to be taken at selling prices and then reduced to approximate cost by deducting a proportion equal to the customary excess of selling price over cost after allowing for all special mark-ups and mark-downs. It is also possible to calculate the estimated value of closing inventories without physical count by deducting the amount of sales at retail value from the total retail value of the merchandise available for sale during the year.

As a specific illustration of the principle, let us assume that the merchandise on hand at the beginning of a period is priced to sell at 25% in excess of its cost and that, similarly, all purchases during the period were priced to yield a 20% gross profit. Therefore, if the aggregate selling price of all merchandise on hand at the close of the period is reduced by 20%, the resultant figure, under ideal conditions, represents a valuation of the closing inventories on a basis of actual cost. The same result

could be achieved without the necessity of taking the closing inventory, assuming a continuation of ideal conditions, by adding the sales value of merchandise purchased during the year to the sales value of merchandise on hand at the beginning of the period to determine the total sales value of merchandise available for sale and then by deducting from this total the actual sales of the year. The remainder should represent the sales value of merchandise on hand at the close of the year which may be reduced to actual cost by the deduction of the 20% profit margin, as before.

As a matter of practice, however, the valuation of inventories by this method is much more complex than is suggested by the simple illustration we have cited. Whenever it is used the analyst should satisfy himself that correct principles have been employed and that adequate recognition has been given to all of the following troublesome features:

1. Variations in mark-on rates between different departments.
 2. Variations in mark-on rates between different classes of goods within the same department.
 3. Variations in mark-on rates between different seasons of the year.
 4. Changes in prices as originally marked, resulting from mark-ups over the original retail, mark-up cancellations, mark-downs under the original retail, and mark-down cancellations.
 5. Special sales merchandise purchased to be sold at an unusually low margin.
 6. Discounts and allowances applicable to invoice costs and to sales.
 7. Transportation and other charges applicable to merchandise.
- Even when the utmost care is exercised in the operation of the accounting system, in handling invoices, marking goods uniformly, and reporting mark-ups and mark-downs, it is desirable that complete periodic inventories be taken in order to eliminate discrepancies which are likely to arise as a result of theft, breakage, mistakes in charging customers, and other inaccuracies.

Credit Women's Club Activities

(Continued from page 34)

teries, Louisville; Mrs. Bessie Helck, Universal Radio Supply Co., Louisville; Miss Ann Macke, I. C. R.R., Louisville; and Miss Alleen Harrison, Tafel Electric Supply Co., Louisville. The members of the group are doing a considerable portion of defense work just at this time.

San Francisco: The regular monthly meeting of the San Francisco Credit Women's Club was held on Wednesday evening, January 21 at the Women's City Club. The guest speaker was Mrs. Edythe Black, authorized first aid instructor for the American National Red Cross, whose topic was: "Needs for Civilian Defense." With an All Out Program under way, the members of the Credit Women's Club reported on their respective activities in Civilian Defense Work, including enlistment in the newly organized Women's Air Raid Wardens.

Utica: At the January meeting the guest speaker was Everett Mangam of Ganey, Hall and Company, who spoke in a very interesting and instructive manner on the present income tax situation. An open forum followed the talk, at which time the members received enlightenment on their individual problems. At the business meeting it was voted to hold Fireside card parties to raise funds to help send a delegate to the National Convention next May.

Buffalo: The Credit Women's Club of Buffalo held its first meeting of the New Year on Tuesday, January 13, 1942, at the "Westbrook." Dr. Lewis A. Froman, Dean of the Millard Fillmore College, was the speaker. His subject, "Facing the Tax Problem," was very timely. The meeting was in charge of Margaret Wurtz as hostess and Helen Dobmeier of the program committee.

Syracuse: The Credit Women's Group, with Miss Mae Turner as President, is cooperating one hundred percent with our government in an "ALL OUT FOR DEFENSE," pledging their services during the emergency to the Civilian Defense for local office work. Proceeds from the holiday turkey raffle were appropriated to the Red Cross, the buying of a Defense Bond.

Minneapolis: A novel program was enjoyed by the Minneapolis Wholesale Credit Women's Club at their dinner meeting on January 8th. Answering a brief questionnaire, each person identified herself and told something about her job and the company she represents, and also explained the nature of the firm's business.

Chicago: "Dangers and Delusions of Drugs" was the topic of the talk given by Dr. Paul A. Teschner at the January 13 dinner meeting of the CWC of Chicago, held at the Chicago Women's Club. Dr. Teschner is assistant director of the Bureau of Health Education of the American Medical Association, and he is also a member of the Editorial Board of Hygeia.

E. Don Ross Is Given High Praise For Big Civic Job

Portland: The December 9th issue of "The Oregonian," the leading newspaper of this city, carried a strong editorial, "An Able Executive," in praise of the excellent work of E. Don Ross, of the Portland Chamber of Commerce, during the year 1941. The editorial says of Mr. Ross, "He has been tireless and competent in the performance of this unselfish public service, and during his administration the Chamber of Commerce has gotten results for Portland."

New York: The second annual report of the New York Credit Fraternity Fund, issued on December 24th, shows that this organization was the means of obtaining new jobs for 139 men. The total number of men on relief during the past year was 29; the amount spent for relief, \$3,346.44; and the number on relief on the date of report, 6. The report of the Treasurer shows \$32,000, with 621 members added to the roster during the past year.

Philadelphia: Colonel Milton G. Baker, Director, United States Office of Civilian Defense, for the Philadelphia area, spoke to the luncheon meeting of the Credit Men's Association of Eastern Pennsylvania on Thursday noon, January 22nd, on "The Business Man's Responsibility in Civilian Defense."

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DEPENDABLE PROTECTION

Business Thermometer

Sales of wholesalers advanced 31 per cent in December, 1941 over 1940. This increase contrasts sharply with the 7 per cent gain reported for 1940 over 1939 and the 7 per cent gain in 1939 over 1938. The year had started out with a substantial margin over 1940, up one-fifth at the end of the first quarter. A widening spread brought the margin of gain up to one-fourth by the end of June. In the third quarter of 1941, sales spurted upward, bringing the record to 30 per cent for the first 9 months. As noted above, this was maintained in the final quarter, so that the year as a whole was 31 per cent above the 12 months of 1940. These figures are shown in a monthly study conducted jointly by the National Association of Credit Men and the Bureau of the Census.

Industrial and hard-goods lines registered the stronger gains, although each line surveyed in this study showed advances over 1940. Wholesalers of industrial supplies led all other trades with a 66 per cent margin over 1940 sales. They were followed by metals, 62%; electrical goods, 60%; and machinery, equipment, and supplies, except electrical,

59%. Four other trades had advances of over 40 per cent, while 9 additional registered gains over 1940 of 30-39 per cent. Smaller margins over 1940 were recorded by food trades, ranging upward from the 12 per cent figure for dairy and poultry products.

Inventories increased during the year in terms of dollars, based on cost value. Contrary to usual small fluctuations, up and down from month to month, this series has reported each month of 1941 slightly above the preceding month. No adjustment has been made in this series, however, for price changes. At the beginning of the year, inventories were about 6 per cent over the stocks on hand one year earlier. Each month during 1941, this margin of gain over 1940 increased to the present December report which shows inventories 29 per cent greater than on December 31, 1940. December is the 29th consecutive month during which inventories, reported by this survey of wholesalers, have gained over the same month of the previous year.

Inventory and Sales Hold Even

DURING the month of December, sales gained an amount equal to the inventory gain with the result that the stock-sales ratio remained at 148 for both December, 1940 and 1941. This is in contrast to earlier months when sales were gaining more rapidly than inventories, and the stock-sales ratio was falling.

Collections on accounts receivable were more favorable in December than during the same month of last year, and increased seasonally from November, 1941. Collections equaled 84 per cent of accounts receivable as of December 1, compared with collection percentages of 76 for December, 1940 and 75 for November, 1941. Accounts receivable were 23 per cent greater on December 1, 1941 than at the same date in 1940, and 5 per cent below November 1, 1941.

Detailed figures are presented in the following tables and in summary for the United States, and insofar as the data permit without disclosing individual operations, by geographic divisions.

Will Adams Is Stricken

Milwaukee: W. K. (Will) Adams, a former Director of the Milwaukee Association of Credit Men and a Vice President of the First Wisconsin National Bank, died suddenly late in December. Mr. Adams was well known in the National Association, having attended a number of annual Conventions.

Groups Talk Problems

Los Angeles: The Credit Educational Committee of the Los Angeles Credit Men's Association presented a unique program on Thursday evening, January 15th. Those in attendance joined in a dinner at 6:30 and at 8:00 o'clock the credit men adjourned to five different groups, where different subjects were discussed as follows: (1) "Gathering Credit Information"; (2) "Appraising the Credit Risk"; (3) "Collection of Accounts"; (4) "Ethics of Credit Management"; (5) "The Banker's View of Commercial Credit." This meeting was arranged by the Los Angeles Chapter of the National Institute of Credit.

WHOLESALESAERS' sales and inventories, December, 1941

Kind of Business	Sales—Current Month				Sales—Year-to-Date		Inventory—End-of-Month (At Cost)				Stock-Sales Ratios*		
	Number of firms reporting sales	Percent change Dec. 1941 from		Dec. 1941 (Add 000)	Percent change from 12 Mos. 1941 (Add 000)	12 Mos. 1941 (Add 000)	Number of firms reporting stocks	Percent change Dec. 1941 from		Dec. 31, 1941 (Add 000)	Dec. 1941	Dec. 1940	Nov. 1941
		Dec. 1940	Nov. 1941					Dec. 1940	Nov. 1941				
Automotive supplies.....	184	+35	- 2	\$4,353	+27	\$69,413	82	+18	+ 2	\$4,313	204	229	195
Chemicals (industrial).....	19	+43	+ 9	1,062	+45	23,709	12	+49	+ 3	623	92	85	94
Paints and varnishes.....	64	+44	-31	2,220	+37	35,518	15	+27	+ 6	875	198	239	173
Clothing and furnishings, except shoes.....	46	+ 8	-25	2,347	+36	38,298	24	+37	+14	1,290	224	156	133
Shoes and other footwear.....	34	+67	+ 8	13,428	+42	173,047	20	+31	+32	7,646	162	221	121
Coal.....	11	+40	+ 6	2,294	+40	25,407	—	—	—	—	—	—	—
Drugs and sundries (liquor excluded).....	120	+16	+ 4	19,043	+16	257,668	32	+20	- 1	6,950	215	205	228
Dry goods.....	95	+26	-17	9,537	+34	173,351	50	+34	+ 9	15,633	271	248	198
Electrical goods.....	290	+27	+22	33,849	+60	471,650	255	+74	+ 4	34,089	107	78	126
Dairy and poultry products.....	25	+15	- 4	2,221	+12	27,692	14	+53	- 5	153	39	32	49
Fresh fruits and vegetables.....	77	+18	+ 1	4,861	+17	59,269	51	+20	- 8	533	26	23	28
Farm supplies.....	9	+98	+103	664	+25	7,236	—	—	—	—	—	—	—
Furniture and house furnishings.....	59	+37	- 2	5,879	+38	106,247	32	+37	- 2	8,821	233	213	223
Groceries and foods, except farm products.....	598	+33	+18	51,618	+16	775,746	351	+33	- 3	47,484	163	163	196
Full-line wholesalers.....	314	+33	+15	21,860	+16	310,970	180	+31	- 3	22,226	173	172	202
Voluntary-group wholesalers.....	160	+30	+21	18,429	+13	290,829	106	+32	- 5	16,853	185	183	228
Retailer-cooperative warehouses.....	20	+34	+17	3,455	+19	48,764	9	+30	- 3	2,956	148	157	176
Specialty lines.....	104	+37	+19	7,874	+19	125,183	56	+48	+ 1	5,449	103	101	126
Confectionery.....	29	+28	-27	499	+17	8,004	16	+25	+ 2	262	86	88	113
Meats and meat products.....	95	+64	+15	28,426	+34	299,438	58	+29	+ 8	5,713	51	54	52
Beer.....	55	+34	+11	969	+24	10,056	42	+26	- 5	307	41	42	48
Wines and liquors.....	27	+15	+42	5,328	+22	63,044	19	+17	- 8	7,866	161	159	227
Liquor department of other trades†.....	39	+14	+50	7,498	+25	59,759	6	+15	+ 1	1,045	200	171	281
Total hardware group.....	326	+35	+ 6	35,574	+47	597,214	198	+21	+ 4	48,896	216	240	215
General hardware.....	126	+28	+ 2	20,194	+39	338,116	76	+23	+ 4	35,145	252	266	243
Industrial supplies.....	115	+47	+13	10,322	+66	174,595	78	+17	+ 2	10,927	155	193	168
Plumbing and heating supplies.....	85	+42	+ 8	5,058	+49	84,503	44	+11	+ 3	2,814	167	196	163
Jewelry.....	32	+ 5	+11	2,584	+38	31,121	18	+11	- 4	1,946	154	142	164
Optical goods.....	27	+28	-10	296	+22	4,445	13	+15	- 1	217	164	179	151
Lumber and building materials.....	43	+22	-12	2,445	+39	52,128	26	+ 9	+ 5	2,066	163	184	141
Machinery, equipment and supplies, except electrical.....	58	+47	+12	4,212	+59	58,285	40	+ 9	+ 4	4,796	134	183	145
Surgical equipment and supplies.....	18	+49	+17	300	+20	14,796	10	+ 6	+ 4	298	196	284	217
Metals.....	32	+20	+11	4,876	+62	76,233	19	+11	+ 7	4,130	111	141	122
Paper and its products.....	84	+47	+ 5	6,472	+31	93,628	41	+20	+ 4	4,806	133	162	135
Petroleum.....	11	+48	+ 8	22,880	+28	182,105	6	+92	- 1	933	86	58	100
Tobacco and its products.....	126	+18	+18	11,629	+ 8	175,944	43	+18	-15	1,623	42	42	58
Leather and shoe findings.....	12	+45	+13	2,25	+21	2,497	—	—	—	—	—	—	—
Miscellaneous.....	25	+ 8	- 6	2,217	+31	51,705	22	-30	-12	2,351	140	211	139
United States.....	2,670	+33	+10	\$289,806	+31	\$4,024,653	1,515	+29	+ 2	\$215,705	148	148	159

* These stock-sales ratios are percentages obtained by dividing stocks by sales for an identical group of firms. — Insufficient data to show separately.
† Not affiliated with voluntary or cooperative groups. ‡ Less than 0.5 percent. † Chiefly of the wholesale drug trade.

WHOLESALESAERS' accounts receivable and collections, December, 1941

Kind of Business	Number of firms reporting	Collection Percentages*			Accounts Receivable		
		December 1941	December 1940	November 1941	Percent change December 1941 from		As of December 1, 1941 (Add 000)
					December 1940	November 1941	
Automotive supplies.....	136	77	66	68	+13	- 8	\$4,497
Chemicals (industrial).....	18	93	86	95	+21	- 6	1,091
Paints and varnishes.....	31	52	43	49	+16	- 7	1,257
Clothing and furnishings, except shoes.....	42	63	51	55	+11	-16	5,825
Shoes and other footwear.....	31	57	50	50	+25	-16	11,089
Coal.....	10	87	85	85	+29	+ 1	1,843
Drugs and sundries (liquor excluded).....	48	76	75	68	+19	- 3	7,944
Dry goods.....	83	58	52	48	+24	-12	23,543
Electrical goods.....	196	82	82	71	+57	- 2	25,672
Dairy and poultry products.....	18	176	190	169	+16	+ †	747
Fresh fruits and vegetables.....	58	157	135	150	+17	- 1	1,119
Farm supplies.....	6	140	99	102	- 3	- 5	296
Furniture and house furnishings.....	48	57	53	51	+26	- 7	10,668
Groceries and foods, except farm products.....	439	110	98	95	+10	- 4	34,132
Full-line wholesalers.....	214	101	92	89	+11	- 5	15,345
Voluntary-group wholesalers.....	127	113	99	98	+ 7	- 5	12,080
Retailer-cooperative warehouses.....	16	211	186	160	+13	- 9	1,420
Specialty lines.....	82	103	92	89	+15	- †	4,387
Confectionery.....	16	88	79	75	+ 9	- 1	362
Meats and meat products.....	84	175	162	165	+45	- †	14,944
Beer.....	18	137	125	124	+ 7	- 1	136
Wines and liquors.....	20	85	89	84	+13	+17	4,209
Liquor department of other trades.....	304	72	63	65	+22	- 7	48,259
Total hardware group.....	118	70	61	62	+17	- 8	31,119
General hardware.....	102	79	74	77	+35	- 4	10,422
Industrial supplies.....	84	75	63	66	+29	- 6	6,717
Plumbing and heating supplies.....	26	28	23	19	+15	+12	6,487
Jewelry.....	24	65	57	68	+10	- 3	422
Optical goods.....	42	70	68	71	+18	- 9	3,856
Lumber and building materials.....	48	58	47	59	+56	- 1	5,093
Machinery, equipment and supplies, except electrical.....	18	48	44	48	+17	- 2	519
Surgical equipment and supplies.....	30	104	91	104	+ 7	- 6	4,332
Metals.....	73	72	60	69	+24	- 5	8,231
Paper and its products.....	8	149	134	131	+11	- 7	895
Petroleum.....	80	130	121	113	+ 9	+ 2	5,803
Tobacco and its products.....	10	51	42	51	+14	- 1	239
Leather and shoe findings.....	25	67	63	58	+10	- 1	4,277
Miscellaneous.....	—	—	—	—	—	—	—
United States.....	1,990	84	76	75	+23	- 5	\$237,688

* Collection percentages are obtained by dividing the collections by accounts receivable for an identical group of firms.
† Less than 0.5 percent.